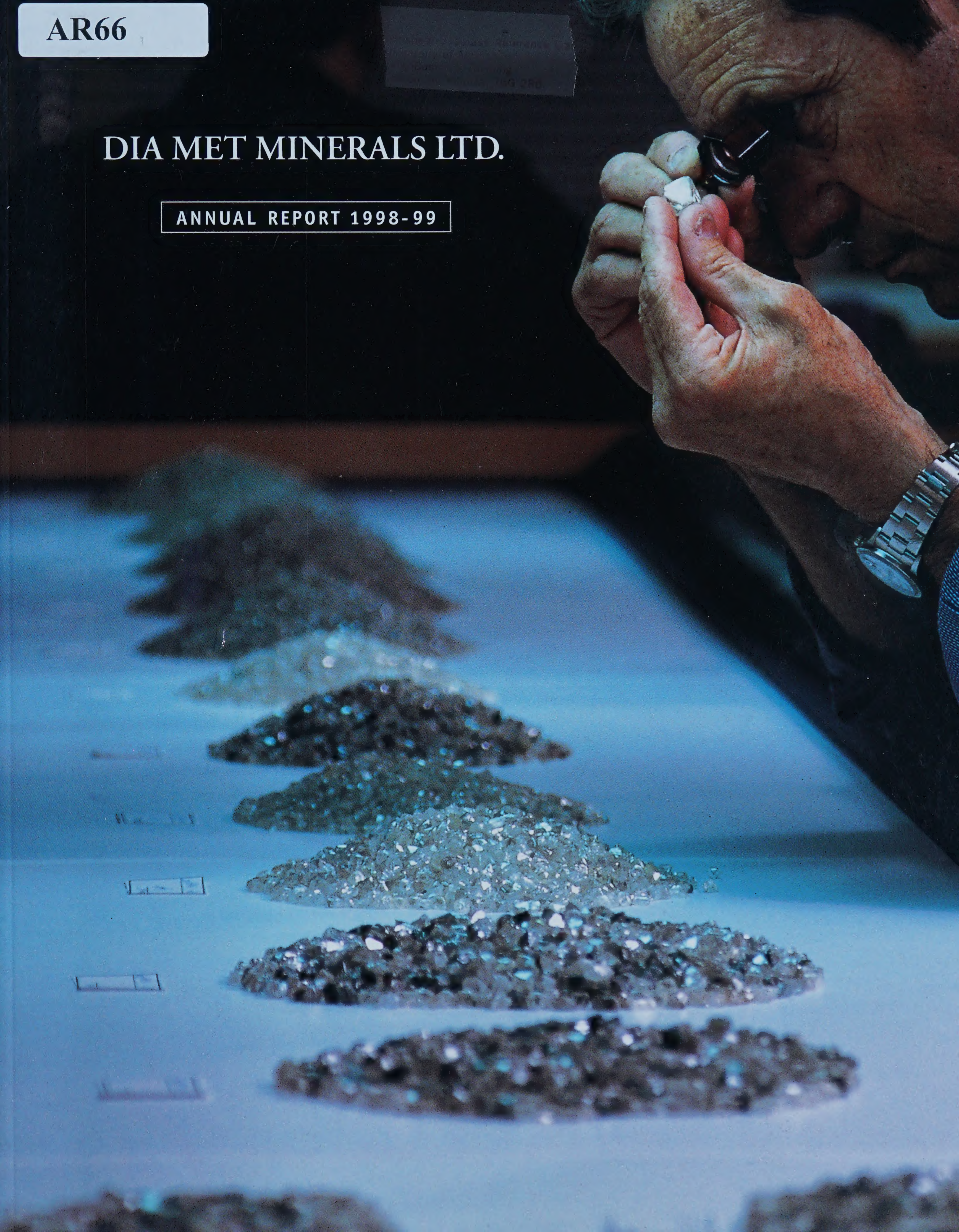
DIA MET MINERALS LTD.

ANNUAL REPORT 1998-99



BUSINESS DESCRIPTION

Dia Met Minerals Ltd. is a mineral exploration and development company engaged principally in the exploration for and development of diamond deposits. The Company is a part-owner of the world-class Ekati™ Diamond Mine, Canada's first diamond mine. Located in the Lac de Gras area of the Northwest Territories, the mine went into production in October 1998. The first sales of Canadian diamonds from Ekati™ began early in 1999 in Antwerp, Belgium.

Dia Met has a 29 per cent interest in the Core Zone joint venture of the Ekati™ mine. BHP Diamonds Inc., a wholly-owned subsidiary of the Broken Hill Proprietary Company Limited of Australia, has a 51 per cent interest and is the mine operator. Two geologists, Charles E. Fipke and Stewart Blusson, have 10 per cent each. Dia Met also has a 7.8 per cent interest in the Buffer Zone claims surrounding and adjacent to the Ekati™ Diamond Mine.

Dia Met was founded in 1983 by Mr. Fipke, Dia Met's chairman, to finance the systematic exploration for diamonds in Canada. Dia Met continues to investigate new exploration opportunities identified by its management. In addition to its investment in the Ekati™ mine, the Company carries out extensive global exploration, including heavy mineral sampling and airborne and ground geophysics in Finland, Greenland, Africa, British Columbia and eastern Europe.

[pure]

[pristine]

The Annual General Meeting of Shareholders will be held at 10:00 a.m. on Friday, June 25, 1999, in the ballroom at the Coast Capri Hotel, 1171 Harvey Avenue, Kelowna, B.C., Canada, V1Y 6E8.

ON THE COVER

Raymond Neuhaus, BHP Diamond's sorting manager in Antwerp, sorting Ekati rough diamonds. Mr. Neuhaus is responsible for managing a team of 10 sorters who sort Ekati diamond production for sales. He has spent his career working in diamonds, first as an independent cleaver, followed by 25 years working for the CSO and De Beers in both Belgium and England. During this period he was also involved in negotiating contract purchases in Australia and Botswana.

DIA MET & CANADA'S DIAMOND DREAM

In Canada's pristine North, there are many words for ice, but none describe the most recent, rare, and purest Arctic ice of all: brilliant Ekati diamonds. From the land of snow and mystery comes a symbol of undying beauty.

A 1.00 carat round brilliant diamond (lower left) and a 1.06 carat brilliant round diamond from the Ekati Diamond Mine.

Dia Met Minerals Ltd.

Assuring a reliable supply of high quality diamonds from Canada.

Jewel of the North

Designed by Brinkhaus Jewellers.
A 1.06 carat, round brilliant cut, Ekati diamond, set in 18k yellow gold and platinum. Color: E (Exceptional White). Clarity: VVS, Valued at about $20,000.

Many who admire diamond jewelry may not realize that the gemstones glistening in their stunning settings once were locked away deep within the earth. They were carried up from the depths and deposited at the earth's surface by violently erupting volcanoes.

PARTNERS IN EKATI, CANADA'S FIRST DIAMOND MINE:

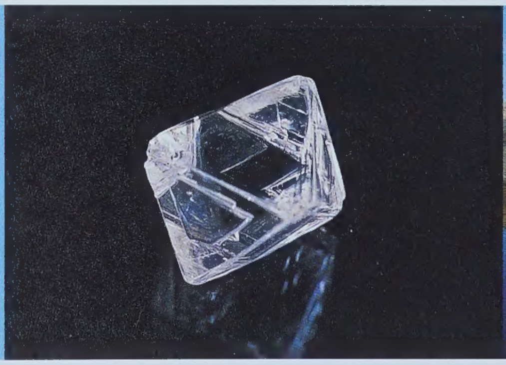
A solid asset providing a steady cashflow for Dia Met for years to come.

In the past year . . .

The Ekati™ Diamond Mine opened on October 14, 1998 ❍ First Canadian diamonds sold in Antwerp in January 1999 ❍ Memorandum of Understanding for 35 per cent of production signed with De Beers ❍ 1,000,000 carats of diamonds mined by May ❍ Ramp-up of production continues on track ❍ Work begins on adding two new pipes to mine plan

Also Dia Met . . .

Concluded deal for diamonds in Mauritania on property larger than entire Slave Craton ❍ Announced normal course issuer bid in September ❍ Discovered new kimberlite pipe in Finland joint venture bringing total to 25 ❍ Reported high microdiamond counts from kimberlite boulders in west Greenland joint venture as predicted from mineral chemistry



The Ekati mine is located in the Northwest Territories, 300 km northeast of the city of Yellowknife.

A 7.25 carat rough stone mined from Panda Pit at Ekati, and sold for $17,400 US.

The Ekati camp viewed from across Kodiak Lake.

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James E. Eccott
President and Chief Executive Officer

"The year 1998 marked the end of an era which commenced with a dream and culminated with Canada's first diamond mine. The project is a success, and we must now look to the future."

On behalf of the Board of Directors I am pleased to present the Annual Report, together with the financial statements for the fiscal year ended January 31, 1999.

On October 14, 1998, the Ekati™ Diamond Mine was officially opened. This ceremony brought to a conclusion the development and construction of Canada's first diamond mine. It was built on budget and on time in the harsh environment of Canada's North. The operator, BHP Diamonds, and everyone involved deserve accolades for successfully building this project with a safety record unparalleled in the North. The construction and startup took place with few major problems, and the mine is now operating close to projected capacity.

A goal was established late last year to reach projected production of 250,000 carats per month by March 1999. This was virtually accomplished, and we were able to announce the production of the millionth carat on April 29, 1999.

The sales of rough diamonds to date have been conducted through BHP Diamonds' office in Antwerp. Sales to core clients are made on a five-week cycle, with the average value per carat having increased with each of the first four sales. To April 30, 1999, approximately 526,000 carats worth $76 million US have been sold. In addition to the scheduled sales, offerings of smaller parcels for market testing purposes are ongoing.

The diamonds have been very well accepted. The introduction of Canadian diamonds went very smoothly, and demand has been beyond expectations.

In February 1999, BHP Diamonds announced the completion of the sorting and valuation building in Yellowknife. This facility will initially be utilized for government valuations for royalty purposes. It employs approximately fifteen people.

In due course, we anticipate entering into selling agreements with a limited number of manufacturers to be located in the Northwest Territories for the cutting and polishing of Canadian diamonds. They will make diamond purchases at current prices and under industry terms. This will contribute to employment and fulfill our continuing commitment to the North.

BHP Diamonds recently signed a Memorandum of Understanding with De Beers Centenary for the sale of approximately 35 per cent of run-of-mine Ekati™ production. The proposed agreement will run for three years and is expected to be finalized and approved before mid-year. De Beers is the world's largest marketer of rough diamonds, and an agreement will assure the sales of a significant proportion of our production.

We recently announced the formation of a joint venture with Ashton Mining Limited of Melbourne, Australia, to discover and develop diamond deposits in Mauritania. Prior to the execution of the agreement, Ashton discovered the West African country's first kimberlites and diamonds. We are required to spend, by March 2003, $10 million US in stages to earn 49 per cent. The Mauritanian Government has a 10 per cent equity interest in some of the tenements included in the joint venture. This project has excellent potential, and we are delighted to once again enter into an exploration partnership with Ashton.

Our other exploration projects are progressing satisfactorily. In Finland, we discovered the 25th pipe, and work is ongoing. In Greenland, a summer program has commenced.

Work on the Nevada gold project and the Paul Mike lead/zinc/silver prospect has ceased, pending thorough reviews and improved metal prices.

In 1996, the Board of Directors adopted a Statement of Corporate Governance. The committees responsible for Audit, Compensation, Governance and Environmental and Safety met regularly on a formal and informal basis. The Statement is being reviewed on a regular basis and will be revised and updated as required.

In March 1999, we announced the appointment of Mr. Gerald Prosalendis as Vice-President of Corporate Development, and Mr. Ray Ashley as Vice-President of Exploration. These positions better reflect increasing responsibilities in the management of these departments and the growth projected for the future.

Mr. Grant Miller, our CFO, made a decision to return to public practise. He will continue to be available on a consulting basis. Grant helped us through a vibrant period of our development, and we would like to express our sincere appreciation.

Ms. Shannon Ross has joined the Company as Controller and Corporate Secretary. Shannon is a C.A. and has had extensive experience in the mining industry.

The Board of Directors continues to work on the creation of a strategic plan, which must be in place prior to the repayment of our indebtedness for our share of the mine costs. The first repayment will be made in May 1999, and it is expected that the financing obligations will be retired within three years. We are examining a number of alternatives for our future direction, and we will be engaging whatever help is required to assist us in making the best decisions for the Company. The finalized strategic plan is expected to allow for a generous dividend program.

During 1998 our employees all worked very diligently and contributed to the successful completion of the mine, as well as the ongoing exploration programs. They all did an excellent job, and we are very proud of their endeavours.

The year 1998 marked the end of an era which commenced with a dream and culminated with Canada's first diamond mine. The project is a success, and we must now look to the future. Dia Met is very aware of its responsibilities to its shareholders and will take advantage of all opportunities which can lead to its being a major participant within its chosen area of endeavour.

Thank you for your continuing support.

James E. Eccott

James E. Eccott
President and Chief Executive Officer
May 4, 1999

Quality diamonds for the international market

Regular sales of rough diamonds from the Ekati™ Diamond Mine — Canada's first diamond mine — began in 1999 in Antwerp, Belgium.

The mine, situated 300 km northeast of Yellowknife in the Northwest Territories, was officially opened on October 14, 1998.

In January, a total of 68,500 carats from October and November 1998 production was sold for $8.5 million US, an average of $124 US a carat. Specials — large stones of 10.8 carats and up — were not included and will be marketed separately. Once sold, they should raise the average price per carat.

A second larger sale of rough diamonds was held in February and a third one in March. The average price per carat rose with each sale. The price was higher yet again in a fourth sale in the last week of April. A total of 457,500 carats were sold from the beginning of February to the end of April for $67.5 million US, an average of about $147 US a carat, excluding specials.

The quality of stones being mined from the Panda kimberlite pipe — the first of five in the current mine plan — is high. Prices for the most recent sales (in dollars per carat) were higher than those achieved by any other large-scale kimberlite mine during the same period and they were exceeded only by alluvial production from Africa, according to BHP Diamonds.

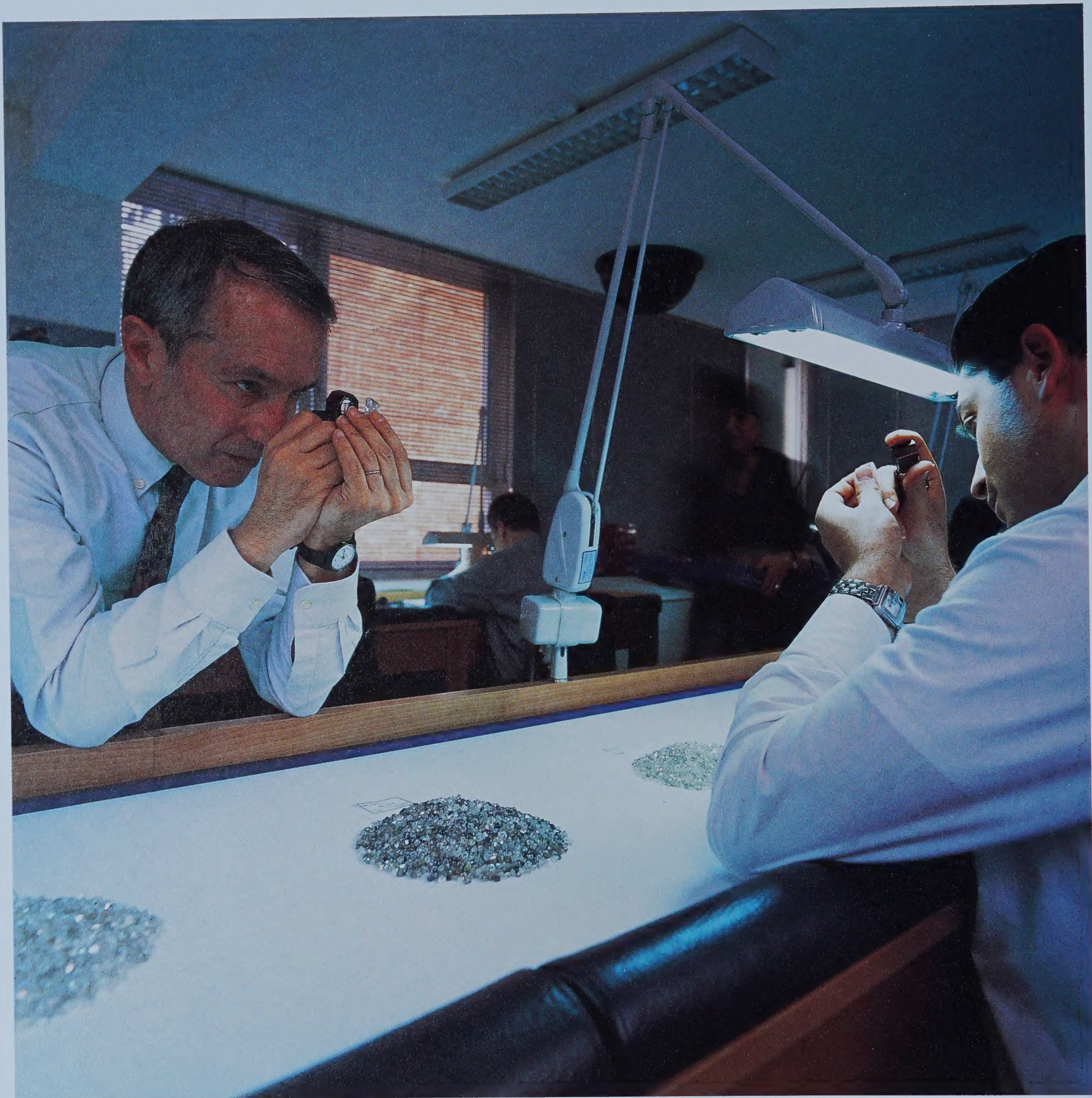
Real gems

Rough diamonds from the Ekati™ Diamond Mine are attractive commercially. A large percentage of the gem-quality stones are commercial white goods. Some are in the D and E colour ranges (rarest white), but most are in the F to I ranges (white to slightly tinted white).

A large proportion are sawables which produce higher yields. Higher-end stones exhibit good clarity and colour. Manufacturers are showing a strong interest in Ekati™ production. Cutters find the stones easy to use on the wheel and to polish.

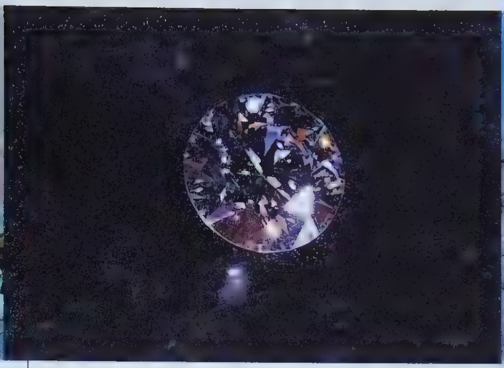
Ekati™ polished goods are readily saleable in North American and world markets.

Antwerp is the world's major diamond trading centre. More than 1,500 diamond companies and four diamond bourses are located in the city's famous diamond sector. The Ekati sales office is also located in this sector. More than half of the world consumption of rough, polished and industrial diamonds passes through Antwerp. In the photograph is a street scene in the city's diamond sector showing one of the four diamond bourses.



Before diamonds are sold, they have to be priced. The first step in valuation is to sort rough into different grades of usefulness or desirability. A gem-quality diamond is sorted many times: at the mine site; at the Yellowknife facility; at the Antwerp sales office; by rough diamond dealers; by the cutter; and, by the jewelry manufacturer.

Sorters are highly trained men and women who are able to identify subtle differences in crystals. They sit at benches covered with fresh white paper. Stones are sorted by size, quality and colour. In the photograph, sorters in the Antwerp office grade Ekati rough diamonds for colour.



Professional packaging

Ekati rough diamonds being packaged for sales to core customers. Sales are conducted every five weeks from the Antwerp office which is managed by BHP Diamonds.

Mined at Ekati in Winter 1998; Rough Diamond Weight: 3.78 carats; Date March 1, 1999; Shape: Round Brilliant; Cut by: Sirius Diamonds; Weight: 1.68 carats; Clarity Grade: VS2; Color Grade: F.

Comparative advantage

Ekati™ offers something not usually available in diamond mining: a consistently high quality product on a reliable basis from a stable country. "And we can offer this reliable supply over an extended period of time. This is an unusual opportunity," says BHP Diamonds marketing manager Bill Zimmerman, shown above at the new sorting facility in Yellowknife.

Mr. Zimmerman says it is important for manufacturers to have a consistent supply of quality diamonds to keep their manufacturing plants running and to feed their distribution channels.

"This allows them to enjoy the same loyalty and long-term relationships with their customers as we want to build with them," Mr. Zimmerman says.

"Some were surprised when the first diamonds were introduced to the market: the quality was there and stones were well presented and sorted. It showed we had done our homework.

"Now we have to build on that start to increase our capability, be aware of what is occurring in the industry and adapt our strategy to take advantage of changes as they occur."

Sales will be conducted every five weeks. The number of carats sold will continue to increase as production from the Ekati™ Diamond Mine ramps up to 250,000 carats a month. Production will rise in 2001, when the Misery pipe comes on stream.

One million carats of rough diamonds had been mined from Ekati™ by late April, 1999.

Ekati™ product

Ekati™'s production is very attractive and many potential customers have shown strong interest.

The quality and size distribution of initial production is consistent with bulk samples. It exhibits a broad range of gem quality stones. Large diamonds are being recovered.

Marketing strategy

In May 1998, the Ekati™ joint venture parties signed a five-year marketing agreement which appointed BHP Diamonds sales agent for the mine's production.

In return, BHP Diamonds agreed to fund Dia Met's full share of the exploration and development costs.

Initially, production from Ekati™ will be sold through the Antwerp sales office which is now fully operational.

A market entry strategy using the Antwerp sales office has enabled the sales agent, BHP Diamonds, to gain knowledge of the product and build up its market experience.

Financial strategy

Dia Met plans to repay the exploration and development costs with little or no share dilution and as quickly as possible from attributable after tax cash flow.

In three to four years Dia Met should become a debt-free company with a solid cash-producing asset.

De Beers

A Memorandum of Understanding was signed with De Beers, the South African-based diamond mining house, for sale of 35 per cent of the run-of-mine production from Ekati™ for three years. Arrangements should be finalized by mid-1999 and regular sales to De Beers would begin shortly thereafter.

The memorandum with De Beers provides stable, assured sales for a significant portion of Ekati™'s production. Ekati™ will not enter into quota arrangements or place restrictions on production.

Sales

The Antwerp sales office has two sales programs, one for core customers, for most of the production, and the other for market testing purposes.

A distinct assortment of rough diamonds is sold to each core customer matching their needs and expertise. No run-of-mine product will be sold in Antwerp.

Core customers are chosen on the basis of their experience, financial strength and the fit between their demand and Ekati™'s supply. Most are well-established diamond dealers and manufacturers with substantial capacity to sell rough. Not many will be manufacturers only.

Mutually beneficial relationships are being developed with core customers in order to provide a reasonable return for both parties. It is likely the list of core customers will be dynamic and will change as experience is gained and the marketing program unfolds.

Prices for rough will reflect current market conditions.

Sales will be conducted every five weeks. There will be ten sales a year.

Smaller, more refined assortments of rough diamonds will also be sold to dealers and manufacturers for analytical purposes. These "window sales" will help to establish appropriate pricing levels for specific qualities and sizes. This information will be used to price packages sold to core customers.

Special stones

Large diamonds are being recovered, including a 69-carat stone in 1999. In December 1998, the recovery of a 47-carat stone was announced.

The process plant was designed to recover large diamonds.

There is no plan to routinely announce the recovery of individual large diamonds unless one were of such high value that it was material. Higher quality special stones will not be included in normal assortments.

Core customers and others may have the opportunity to buy special stones. Specials could also be put up for tender to dealers that specialize in larger stones, or cut, polished and auctioned on a contract basis.

Diamond market

There has been strong demand in Antwerp for Ekati™ rough in the first four sales of 1999.

Sales for De Beers first three sights of 1999 are believed to have risen about 30 per cent compared with the same period the previous year.

The weakness in demand for diamond jewelry in Southeast Asia and Japan appears to have bottomed, and demand in the United States continues to grow. The U.S. remains the world's largest market for polished diamonds and could make up as much as 50 per cent of global demand in 1999.

Supply of rough from the Congo, Angola and Sierra Leone, the world's fourth, fifth and ninth biggest producers by value, has been curtailed because of armed conflict.

Sharp cutbacks by De Beers in 1998 — sales were down 28 per cent and were the lowest since 1987 — have wrung some of the excess inventory from the downstream market.

While demand issues remain uncertain and the industry is vulnerable to a slowdown in the U.S. economy, many believe it has moved through the low point.

Yellowknife Facility

A sorting and valuation facility, the first of its kind in North America, was opened in Yellowknife in February 1999. The facility will be used for training, basic sorting and valuation by government for royalty purposes. Run-of-mine sales, including sales to De Beers, will be conducted from this facility.

It is anticipated that more detailed sorting for marketing purposes and product sales could be carried out at the facility as skills and expertise develop.

The workforce at the facility will be about 15 people.

Sales to Canadian dealers and manufacturers

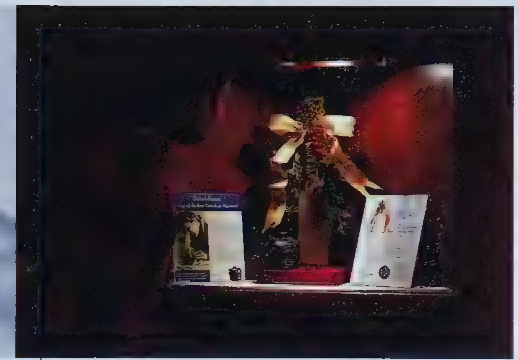
A portion of suitable production is expected to be supplied for local manufacturing.

One commitment to supply diamonds for manufacturing in Canada is in place and others are being discussed. The availability of supply will increase as the Canadian cutting industry develops.

Initially, sorting for sales to Canadian dealers will be conducted in Antwerp. It will move to Yellowknife once the sorting skills are in place.

There is a limited supply of Ekati™ production that can be made available on an economic basis for manufacturing in the Northwest Territories or elsewhere in Canada.

Sorting rough diamonds in BHP Diamonds' Antwerp office. Initially, the full production from Ekati will be sold through this facility. (This page and next page)



Diamond Pendant
Designed by Brinkhaus Jewellers. A 1.00 carat, round brilliant cut, Ekati diamond, set in 18k yellow gold and platinum. Color: F (Rare White+), Clarity: VSI, Valued at about $18,000.

Diamond Earrings
Designed by Brinkhaus Jewellers. A combined weight of 1.12 carats of Ekati diamonds, set in 18k yellow gold and platinum. Color: G (Rare White), Clarity: VSI, Valued at about $10,000.

Canadian First
Two of the first six cut Canadian diamonds ever seen by the public. The stones were cut by Sirius Diamonds, and displayed by Brinkhaus Jewellers in Vancouver, B.C.

Fiery Genesis

Diamonds are born far below the surface of the earth, at depths of 150 km or more, where high temperatures and pressures are ideal for crystallization.

Kimberlite volcanoes that contain diamonds are found mainly on continents where the earth's crust is thick, ancient and stable. These regions are known as cratons. Diamonds themselves are very old and many probably formed relatively soon after the earth itself.

On a global scale most kimberlites have no diamonds at all, or so few that they cannot be mined economically. Less than one per cent of the 15,000 known kimberlites justify sampling and less than 100 can be considered to have been profitably exploited in the medium term.

The great majority of kimberlite mines have been in Africa. Today one lamproite, Argyle, and seven kimberlites (Jwaneng, Orapa, Venetia, Finsch, Premier, Mbuji Mayi and Udachnaya) provide more than 80 per cent of the world's annual production.

The necessary conditions of old age and stability of the overlying continental regions are met in the Slave craton, the region of the North American continent where the Ekati™ Diamond Mine — Canada's first diamond mine — is now in production. Other cratons, for example, in South Africa and Russia, are well-known for their major diamond mines.

The 4 C's

Cut

How a diamond has been cut, polished, and to what proportions, are extremely important. These factors determine the life, brilliance and lustre of a diamond. If the cutting standards are substandard, the appearance of a diamond will be adversely affected. The brilliant or round cut is the most popular but other exquisite cuts, such as the marquise, pear, oval, emerald, heart shaped, are also highly prized.

Carat

The weight or size of a diamond is measured in carats. A carat is 0.2 grams; there are 100 points (or 200 milligrams) per carat.

Clarity

In order to grade the clarity of a diamond, it is necessary to determine the number and nature of inclusions in the stone as well as their size and position. This analysis is carried out using a 10x loupe under the experienced eye of a laboratory gemmologist. A diamond is said to be internally flawless when it presents no internal defect under 10x magnification.

Colour

Most diamonds of gem quality vary in shade from colourless to yellow. To determine the correct colour, diamonds are compared with an internationally accepted master set of stones which range from D, or colourless – the most sought after – to Z, the yellowest. Other colours also occur in diamonds such as orange, pink, blue etc. The most intense of these shades are known as "fancy" colours.

Source: I.G.I.

Creating an Ekati jewel

The first Ekati™ cut diamonds were seen by the Canadian public in late December 1998. The rough stones were purchased from BHP Diamonds by B.C-based Sirius Diamonds which then cut and polished them. They were displayed at Brinkhaus jewelry stores in Vancouver and Calgary.

The Ekati™ owners are in the business of supplying rough diamonds to the world diamond trade. While they are not in the business of cutting diamonds or manufacturing jewelry, the next four pages show the steps involved in creating a highly-prized Ekati™ jewel. In the photographs that follow, a rough Ekati™ stone is cut and polished by Sirius Diamonds, before it is sold to a retail jewelry store.

A diamond obtains its final shape and brilliance by a succession of processes.

Marking
Each diamond is unique and has to be studied to determine the best way of cutting it with minimum loss of weight and for best possible clarity.

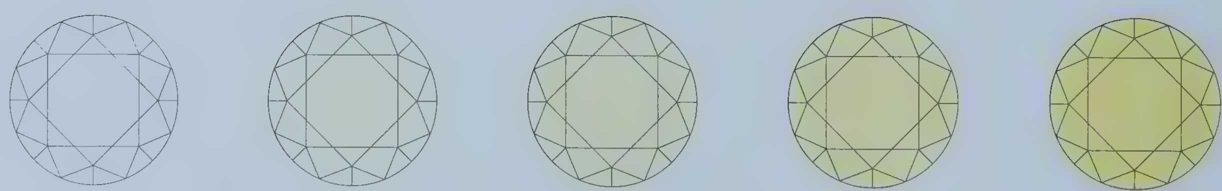
Cleaving
The stone is split into two pieces to remove impurities or irregularities.

Sawing
The stone is set in a copper dop with a special paste. The dop is then mounted on the saw. The saw blade is coated with diamond powder mixed with oil. The diamond is sawn slowly. With new techniques, a diamond can also be sawn using a laser beam.

Bruting
This gives a diamond its final outline. The diamond is mounted in a dop on the chuck of a lathe. The form is achieved by turning the diamond against another diamond mounted on a bruting stick.

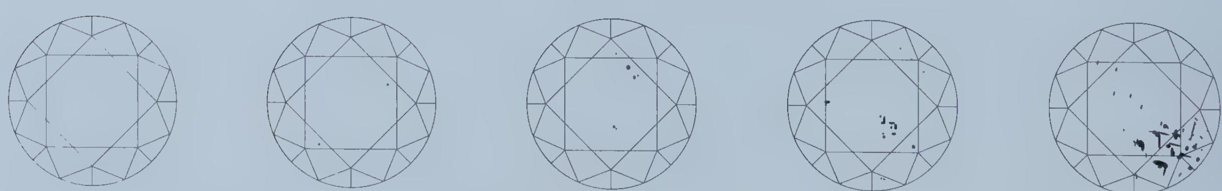
Polishing
Faces are made on the surface of a rough stone using a polishing tang and an adjustable polishing dop. By placing the tang on the polishing wheel, a horizontal circular cast iron disc, the polisher gives the stone its shape and lustre.

Colour



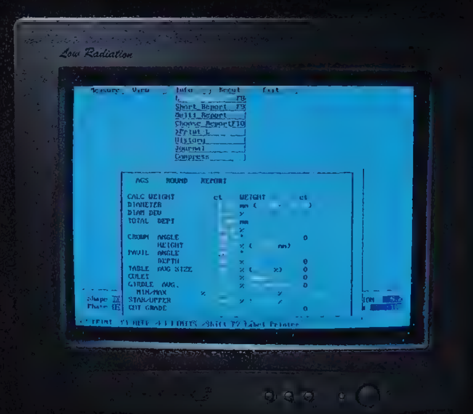
D(0+) - F(1+)	G(1) - J(4)	K(5) - M(7)	N(8) - R(12)	S(13) - Z(20)
Colourless	Near Colourless	Slightly Tinted	Very Light Yellow	Light Yellow - Yellow

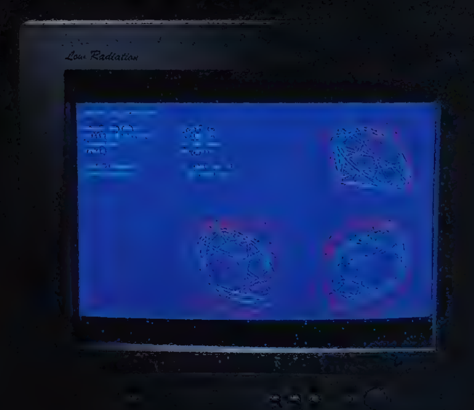
Clarity

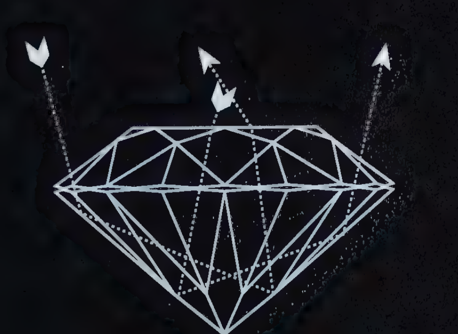


I.F.	V.V.S.1 - V.V.S.2	V.S.1 - V.S.2	S.I.1 - S.I.2	P.1 - I.1
Internally Flawless	Very, very, slightly included	Very, slightly included	Slightly included	Imperfect
Free from internal blemishes visible under 10x magnification (small external details tolerated)	Inclusions and/or external blemishes very difficult to locate under 10x magnification	Inclusions and external blemishes difficult to locate under 10x magnification	Inclusions and external blemishes easy to locate under 10x magnification	Inclusions and external blemishes very easy to locate under 10x magnification

The uncut stone is placed in a scanner, a Diascan 1200, and using the computer program *Sarin Diarough Expert* the full potential of a stone can be determined and viewed on screen. The program analyzes the stone and shows different views of the 'internal' finished diamond (providing optimum finished carat weight). It can show design and weight of a potential second smaller diamond from the stone.



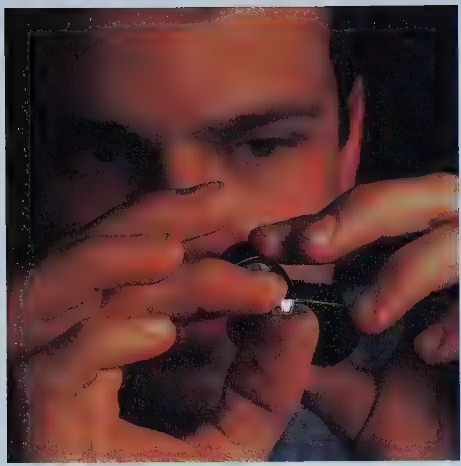




The Ideal Cut
Light entering the diamond reflects internally from facet to facet and is reflected back through the top only, creating maximum brilliance.

Too Shallow
When a diamond is cut too shallow, light leaks out of the bottom, brilliance is lost and the centre of the diamond appears watery, glassy and dark.

Too Deep
When a diamond is cut too deep, light leaks out of the bottom, brilliance is lost, and the centre of the diamond will appear to be dark.



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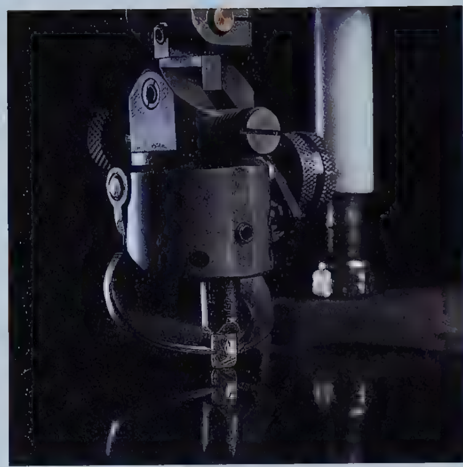

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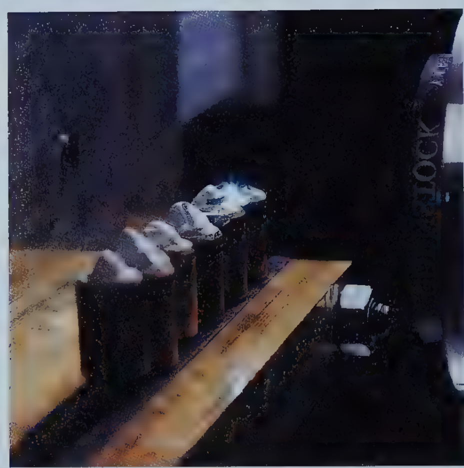

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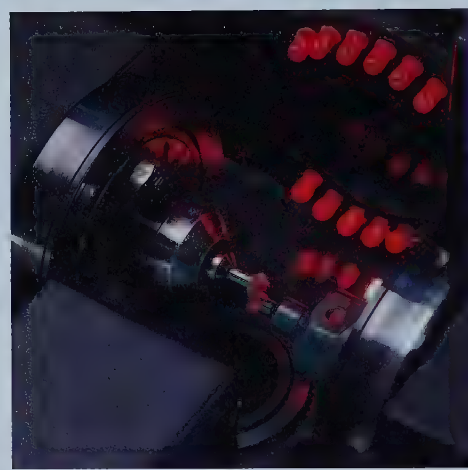

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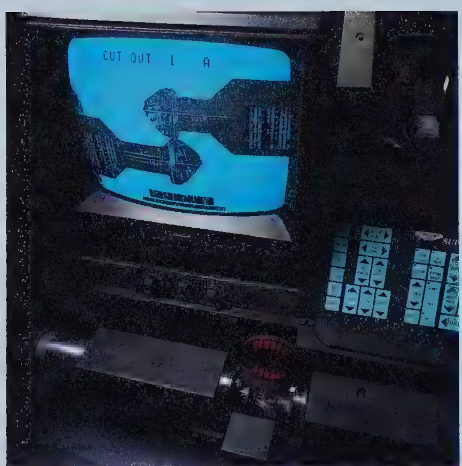

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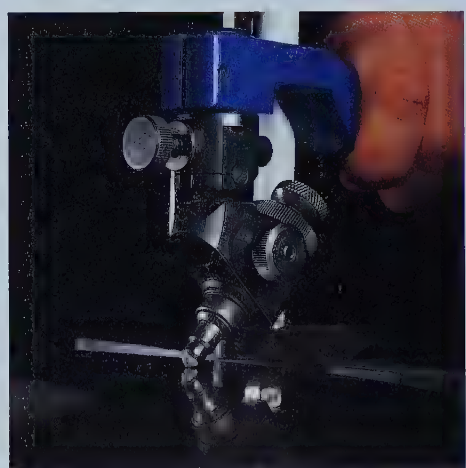

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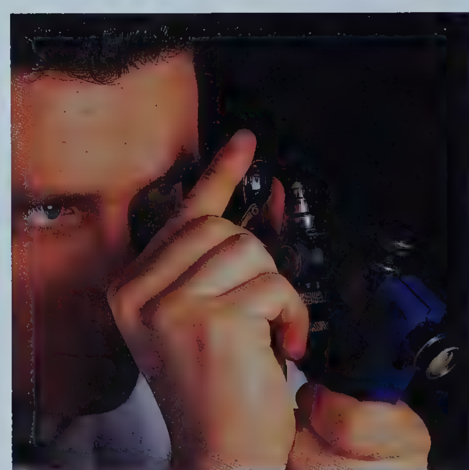
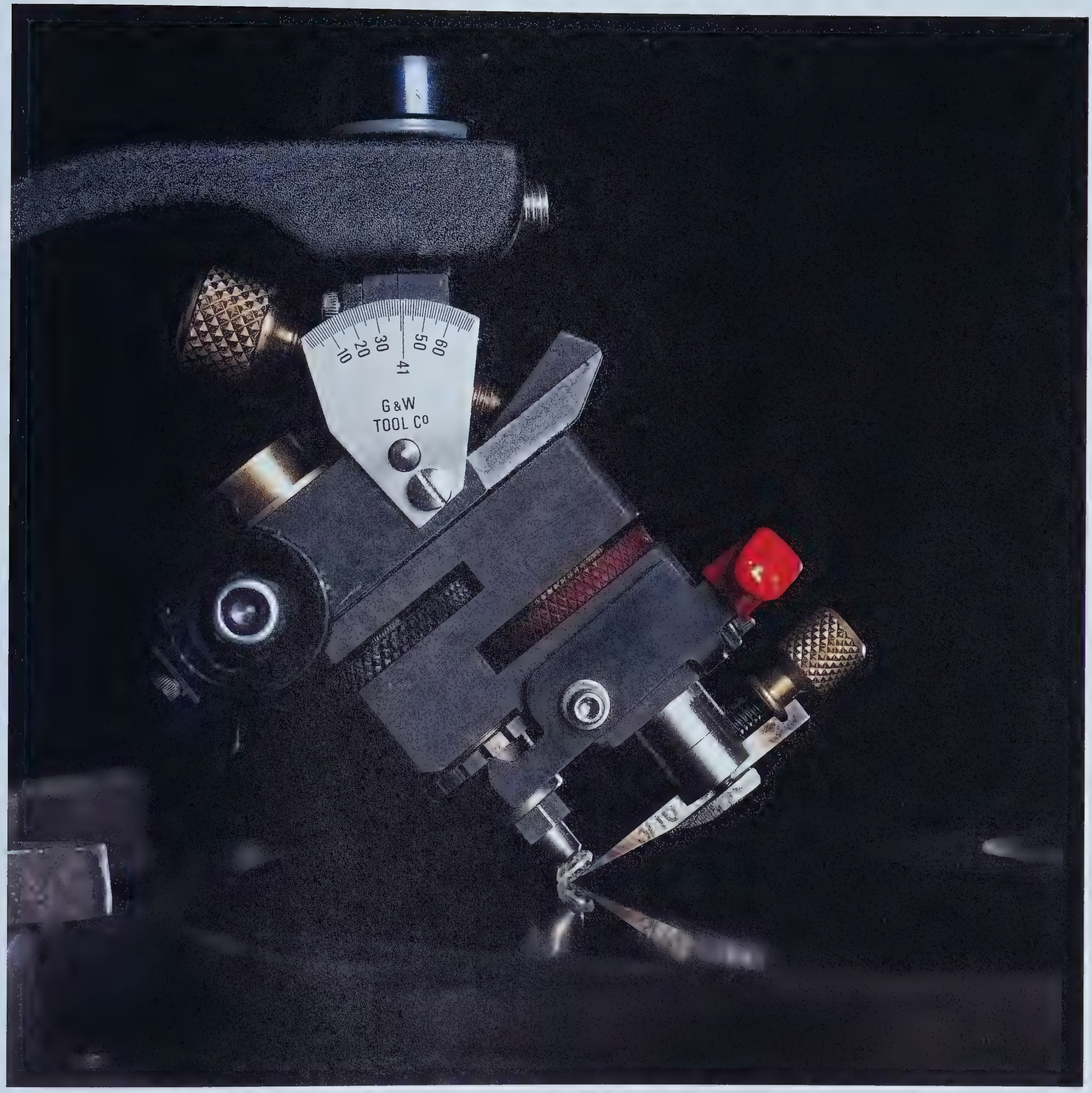


[9]

Jamie Ben-Oliel of Sirius Diamonds examines uncut Ekati stone [1] to determine where to polish a 'window'. The stone is mounted on a tang [2] and a 'window' polished on a revolving wheel, a scaife. Scaifes revolve at 2800rpm and consist of a layer of minute diamond particles, which are applied with a paste. They have to be resurfaced periodically. [3] View of diamond window. [4] A closer view inside the diamond is made by the use of a microscope. Inclusions are located and, where possible, removed from the finished stone. [5] Laser cutting of the stones. Stones are mounted and lined up precisely in a row (a video camera is attached to the laser for accurate mounting). The laser is focused on the top edge of the stones which are covered in 'white-out' to protect from unwanted damage from the laser. The row of diamonds (up to 100 diamonds are mounted in one cutting) move backwards and forwards under the laser. It takes approximately 30 minutes to cut the 'table' of one stone. About 60 per cent of stones are cut by laser. [6&7] Two stones are mounted and rub against each other, a process called bruting, and by gradually chipping away at each other produce a rounded stone. [8] The stone is mounted on a semi automatic click barrel bottom tang and the initial angle polished. The stone is constantly viewed by the cutter [9] for precision of polishing.



[10]

[10] A near-finished stone. The tang used is a G & W Top Tang.

[11] The finished jewel.

[11]

Dynamic mine plan

The Ekati™ Diamond Mine involves both mining kimberlite ore and treating it to recover rough industrial and gem quality diamonds. A large investment in infrastructure has been made to support these two operations. Total cost of the project, including exploration was about $700 million US.

The mine was brought into production on time and within budget on October 14, 1998, only seven years after the discovery of the first diamond bearing kimberlite pipe at Point Lake, and 21 months after final government approvals in January 1997. During construction, it achieved an exceptional safety record. All environmental and socio-economic commitments are being met or exceeded.

The mine is a joint venture between BHP Diamonds Inc. (51 per cent), Dia Met Minerals Ltd. (29 per cent) and two geologists, Charles E. Fipke and Stewart Blusson (10 per cent each). BHP Diamonds is the operator.

The 1997 feasibility study calls for five separate kimberlite pipes to be mined.

Three of the five kimberlite pipes — Panda, Koala and Fox — are near the site of the processing plant, Sable is 17 km to the north and Misery is 29 km to the southeast. All five will be developed using open pit mining followed by underground mining at Panda and Koala because of the higher value of their ore.

The mine plan is designed to provide a reliable supply of ore to the process plant. A stockpile of ore will be available if mining is interrupted. The plan also ensures people can work safely and that the environment is protected.

The majority of natural diamonds are found in deposits of a rare variety of ultrabasic igneous rock called kimberlite. Kimberlite is a volcanic rock-type that originates at depths of 150 km or greater below the earth's surface. Kimberlite eruptions carry diamonds to the earth's surface.

Geologically speaking, the Lac de Gras kimberlites are similar to occurrences in South Africa and Russia.

All of the kimberlite pipes scheduled for mining are overlain by small, relatively shallow lakes. The lakes vary in depth from 12 metres to 29 metres.

The mine plan is based on multiple pipe development. Initially, open pit mining will be used. Underground mining will allow access to valuable resources that remain below mined out pits.

Based on known ore reserves, the current project life is 17 years. However, the mine can reasonably be expected to have a life span of 25 years or beyond.

A total of about 78 million tonnes of ore will be processed over the planned life of the project.

Open pit mining has started on the Panda pipe. The next pipe to be mined is Misery.

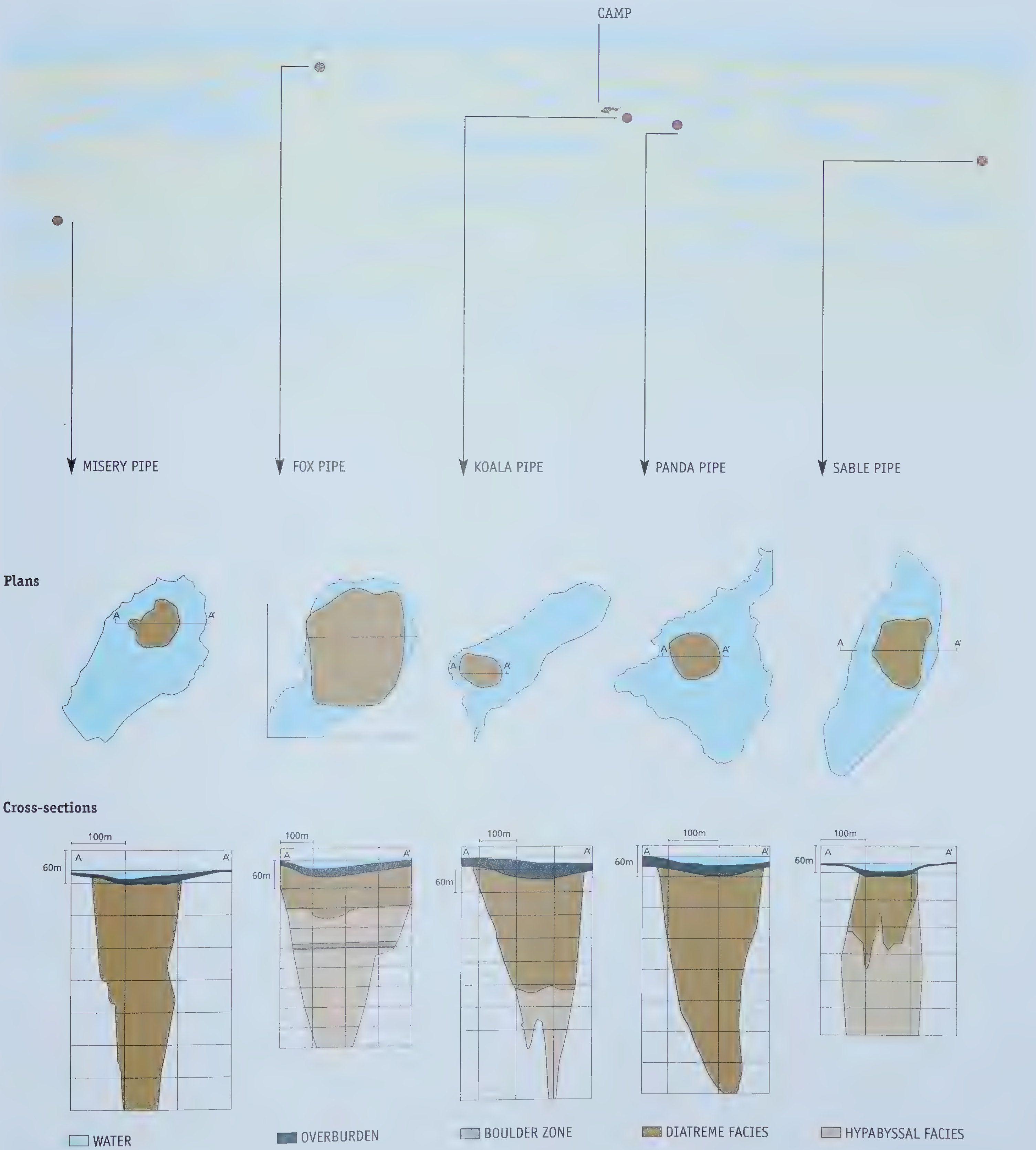
Panda pit will have a total depth of about 330 metres. The pit is one kilometre wide, and will have a 55 degree slope.

Five pipe project

The Ekati™ Diamond Mine is located in the Lac de Gras area of the Northwest Territories (seen here from the east), about 300 km northeast of Yellowknife. The property covers about 960,000 acres. The mine plan involves both mining kimberlite ore and processing it to recover rough industrial and gem quality diamonds.

Five separate kimberlite pipes will be mined (see below). Three of the pipes — Panda, Koala and Fox — are near the site of the main processing plant, Sable is 17 km to the north and Misery is 29 km to the southeast. All five will be developed using open pit mining followed by underground mining at Panda and Koala because of the higher value of their ore.

A total of 78 million tonnes of ore and 508 million tonnes of waste rock is scheduled to be mined over the initial 17-year life of the project. The total life of the project is expected to be 25 years or more.

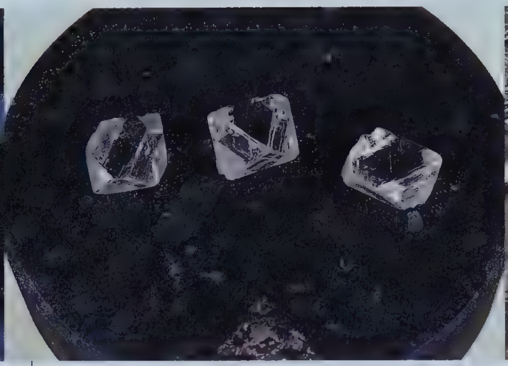


Ore will be initially processed at the rate of 9,000 tonnes a day. Processing could double to 18,000 tonnes a day: this expansion is planned for year 10 of the project. A total of 78 million tonnes of ore and 508 million tonnes of waste rock is scheduled to be mined over the initial 17-year life of the project.

Additional kimberlite pipes which have been bulk sampled may have economic potential. Several other known pipes warrant additional work. The mine plan is somewhat dynamic based on exploration results and has previously been altered to replace one pipe (Leslie) with a more economic one (Sable). Because of this, and continuing exploration, the joint venture partners anticipate that the mine will have a life longer than the 17 years forecast in the feasibility study. The total life of the project is expected to be 25 years or more.

The Ekati™ Diamond Mine is expected to produce three to five million carats of rough industrial and gem quality diamonds a year.

Visitors examining Ekati production at the mine's opening ceremony on October 14, 1998. Production at the mine continues to ramp up to the planned 250,000 carats a month.



Three rough diamonds mined from the Panda pit and sold for a total of $35,892 US. From the left, a 5.07 carat stone, a 5.22 carat stone and a 7.25 carat stone.

Process plant — shown with coarse ore storage in foreground.

The plant building is 70 metres wide by 154 metres long and 30 metres high.

Sufficient space has been allocated within the building for additional processing equipment to increase its processing capacity from 9,000 to 18,000 tonnes a day.

The plant includes a six-storey recovery section, control room and motor control centres and offices for support staff.

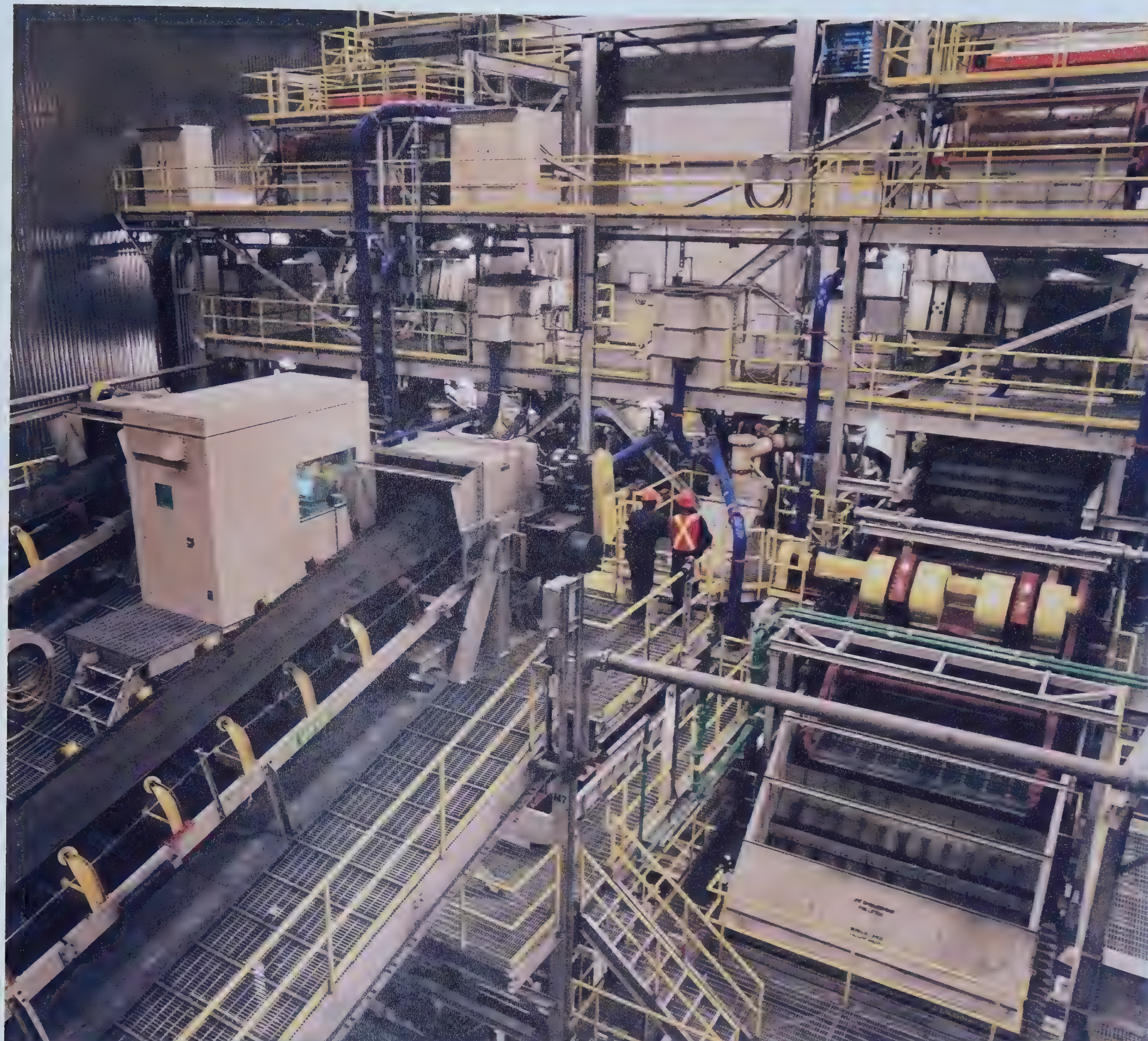
Three main steps are involved in the ore processing system: crushing, scrubbing and screening; heavy medium separation; and, recovery.

The gyratory-type primary crusher reduces ore to a top size of 300 mm.

A coarse-ore stockpile is housed in a building located next to the process plant. The coarse-ore storage building has a footprint of about 11,856 sq. metres and houses a stockpile of up to 20,000 tonnes.

A water flushed cone crusher located in the process plant reduces the coarse ore to 75 mm. Process water used in the secondary crusher is heated.

A high-pressure roll crusher is used to break ore down to a maximum of 25 mm.



Process plant (contd.) — Heavy medium separation (HMS) area shown.

Primary and secondary scrubbers, and degritting and desanding sections remove fine waste material for disposal.

Heavy medium separation using a slurry of water and ground ferrosilicon separate diamond concentrate from crushed ore. Higher density concentrate, including diamonds, sink through the heavy media.

X-ray sorters extract diamonds from the HMS concentrate. Diamonds luminesce when subjected to X-rays.

Mining and processing activities are continuous, 24 hours a day, 365 days a year.

The 640-tonne Demag hydraulic front shovel — the workhorse of the Ekati open pit — in the Panda pit, the first of five pipes to be mined.

Consolidating the old. Establishing the new

The discovery of the Ekati™ Diamond Mine in the Northwest Territories provided Dia Met with an opportunity to develop and refine diamond exploration expertise. By managing the Ekati™ project early on, and through its continued involvement in ongoing exploration, Dia Met has developed an exploration advantage it is able to apply elsewhere. This includes the ability:

- To make informed decisions about the potential of projects.
- To make a systematic, efficient and effective assessment of target potential.
- To be among the first to enter new diamond plays, evaluate projects quickly and move rapidly through the stages of exploration.

Three components give Dia Met a competitive advantage in diamond exploration: the company, its people and its proprietary tools.

Company

Dia Met is a small but well funded mineral exploration and development company that is primarily focused on diamonds. Because it is small and unencumbered by bureaucracy it can:

- Swiftly seize opportunities.
- Work effectively in joint ventures with both major and junior mining and exploration companies.

Greenland
Sampling glacial till for indicator minerals.

People

Dia Met has exceptional technical understanding and ability and can draw from a pool of world-class geoscientists. This allows the company:

- To integrate geoscience disciplines for a full spectrum approach to exploration.
- To develop innovative solutions to technical problems.
- To apply knowledge gained on one project to another while tailoring methodology to adapt to different geological and physical environments.

Exploration Tools

Dia Met uses a variety of geoscience tools. Proprietary techniques have been developed in geochemistry and geophysics and are used to evaluate and develop diamond exploration projects.

In geochemistry, Dia Met has first access to a world-class analytical laboratory for evaluating heavy minerals. C.F. Mineral Research Ltd., developed by Dia Met chairman Charles Fipke, played an important role in locating and recognizing the Lac de Gras kimberlite field. Understanding gained through extensive work on the Ekati™ project helped refine analytical techniques, which, in turn, are used to assess the potential of diamond projects developed or acquired by Dia Met.

Developing and applying geophysical techniques for diamond exploration played a major role in the discovery of kimberlite pipes at Ekati™. These techniques have been refined and applied to other Dia Met projects.

The Northwest Territories

The Ekati™ project is Dia Met's most important asset, not only in terms of its commercial significance, but also in terms of its value as a knowledge base from which Dia Met has evolved to become a premier diamond explorer worldwide. From the identification of kimberlite indicator minerals in the western NWT, through the tracking of those indicators back to the Lac de Gras area, and finally to the rapid discovery of more than 107 kimberlites within the project area, Dia Met has refined its understanding of diamond exploration. It has tailored its methodology and applied it to other diamond projects it has undertaken. It is this project that has given Dia Met the opportunity to develop its competitive advantage.

Project review

Exploration core drilling during the summer of 1998 resulted in the discovery of seven new kimberlite pipes, six of which are located in the Core Zone. This brings the total number of kimberlite pipes discovered on the property to 107. Eighty one of these kimberlites are located in the Core Zone.

Three of the seven kimberlite pipes discovered in 1998 produced significant microdiamond results (Table 1). The results were obtained from analysis of split 4.76 cm-diameter drill core samples submitted to an independent laboratory. The 1998 drilling also further delineated the Beartooth (Core Zone) and Gazelle (Buffer Zone) pipes.

Final diamond grade results were received for the Koala North and Beartooth kimberlite pipes (Table 2) which are located in the Ekati™ mine area. Commercial valuation was made in Antwerp in May 1998. The average sample value of Koala North diamonds was $200 US per carat. Approximately 77 per cent of the value is due to three gem quality stones ranging in size from 3.26 to 5.41 carats. These figures are 10 per cent less than the average prices reported by dealers and valuers, which has been the joint venture's customary reporting practice when values are based on dealer sales prices. The surface area of the Koala North and Beartooth pipes are approximately 0.6 hectares and 1.0 hectares, respectively. Feasibility work is underway to incorporate both pipes into the mine plan.

The Pigeon kimberlite pipe (Core Zone) is land-based, approximately two hectares in surface plan and is located five kilometers north of the Ekati™ process plant. A small bulk sample collected in 1995 yielded 60 carats, with an average value of $51 US per carat, from a 154-tonne sample for an average grade of 0.39 carats per tonne. A much larger sample (approximately 540 dry tonnes) was collected in late summer 1998 using a 13.75 inch diameter reverse circulation drill rig. Twelve drill holes were completed for a total sampled kimberlite interval of 2,530 metres. The sample was divided into crater and hypabyssal zones for processing. The average depth to the crater (upper zone) / hypabyssal (lower zone) contact is approximately 120 metres. Valuations for the parcels collected from the two zones were conducted in Antwerp by a number of diamond dealers, valuers and consultants. The average diamond values obtained along with sample grade data are provided in Table 3.

Three kimberlite pipes were bulk sampled by large diameter (13.75 inch) reverse circulation drilling in winter 1999. The program was completed on March 20, 1999. Approximately 106 dry tonnes of kimberlite were sampled at the Phoenix pipe (Core Zone). Two previously untested kimberlite pipes were sampled in the Buffer Zone including the Gazelle pipe (approximately 234 dry tonnes) and the Piranha pipe (approximately 90 tonnes). The kimberlite bulk samples will be processed at the Koala on-site dense media separation plant. Final diamond grade and valuation figures are expected by September 1999.

Exploration programs including core drilling and high-resolution airborne geophysical surveys have been planned for both the Core and Buffer Zones in 1999. Additional reverse circulation drilling programs have been tentatively planned for winter 2000.

Table 1

Microdiamond Sample Results – 1998 Exploration Program

Micro diamonds (Stones <0.5mm) Macro diamonds (Stones >0.5mm)

Pipe Code	Drill Hole	Sample Wt.	Stones <0.5mm	Stones >0.5 mm	Total Recovery
98-A (buffer)	98-6	194.9 kg	11	8	0.112 cts
98-B (core)	98-7	73.3 kg	12	11	0.057 cts
98-C (core)	98-13	155.7 kg	95	61	0.226 cts
98-C (core)	98-14	83.8 kg	63	34	0.112 cts

Five stones for a total of 9.47 carats from the Beartooth pipe bulk sample.

Table 2

Bulk Sample Results – 1998 Winter Reverse Circulation Drilling Program

Pipe Name	Kimberlite Metres Drilled	Estimated Dry Kimberlite Tonnes Sampled	Total Carats Recovered >1mm	Sample Grade Carats/Tonne
Koala North	1075	201.7	126.58	0.63
Beartooth	1020	189.3	227.09	1.20

Table 3

Diamond Grade and Valuation Results – 1998 Summer RC Drilling Program

Pigeon Kimb. Pipe Sample Zone	Estimated Dry Kimberlite Tonnes Sampled	Total Carats Recovered >1mm	Sample Grade Carats/Tonne	Value US$/ct
Crater (upper)	213.6	113.89	0.53	$71
Hypabyssal (lower)	351.2	137.42	0.39	$39

Pigeon crater bulk sample;
Pipe 98-C;
113.89 carats.

Mauritania

Dia Met/Ashton Mining Joint Venture

In April of this year, Dia Met Minerals (Africa) Ltd., a subsidiary of Dia Met Minerals Ltd., and Ashton West Africa Pty Limited, a subsidiary of Ashton Mining Limited of Australia, executed a joint venture agreement to explore for diamonds in Mauritania. The agreement contemplates Dia Met earning up to a 49 per cent interest in a land package covering 214,000 sq. km in Mauritania. Ashton initiated exploration for diamonds in Mauritania in 1995 on the previously unexplored Archaean Reguibat shield. Following early positive results from a reconnaissance sampling program, which resulted in the discovery of diamond stability field minerals in a number of areas, Ashton secured several licences covering the areas most prospective for diamonds.

In subsequent programs Ashton has flown several sorties of airborne geophysics in the areas where the most promising indicator mineral results were obtained and has identified other highly prospective areas that have now been secured under licence or licence application. To date, a kimberlite cluster has been found in one licence along with small diamonds and diamond stability field minerals. In other areas, the spread of indicator minerals, including diamonds, strongly suggest additional kimberlite clusters will be found and work is currently in progress in these areas.

This agreement presents an outstanding opportunity for Dia Met to participate in a substantial land package equal to the entire area of Canada's Slave Craton. This virgin Archaean terrain has been shown to contain kimberlites, diamonds and diamond stability field minerals and must be considered prospective for economic kimberlites. In keeping with Dia Met's strategy, the Mauritanian project demonstrates the company's competitive advantage over other diamond explorers by:

- Being among the first exploration companies to establish a presence in Mauritania.
- Identifying and securing a large land package with potential to yield economic diamond deposits in the short term.
- Building on the strengths of Dia Met and another established premier diamond explorer to exploit the combined strengths and expertise of both companies.

Greenland

Dia Met/Citation/Cantex Joint Venture and Dia Met/Monopros Joint Venture

In 1997 Dia Met entered into two separate agreements on diamond properties in west Greenland. The first agreement, with Citation Resources Inc. (formerly Quadrant Resources Pty Ltd.) and Cantex Mine Development Corp. (formerly Canadian Mountain Minerals Ltd.) enabled Dia Met to earn a 31 per cent interest in a land package consisting of 16 exploration licences covering 15,530 sq. km. The second agreement, with Monopros Limited, De Beers' Canadian subsidiary, allowed Dia Met to earn a 49 per cent interest in a property that consists of six exploration licences covering 1972 sq. km.

Through the use of geochemistry and geophysics, Dia Met has been able to:

- Identify that Greenland is prospective for diamonds and to enter this new diamond play at an early stage.
- Isolate an area within the land package where accelerated exploration is warranted.
- Confidently evaluate each exploration licence within the land package, keeping those licences with diamond potential and relinquishing those without.
- Quickly advance exploration from reconnaissance to target development and discrimination.

Over the course of two years, the land package in the Citation/Cantex project has been reduced to eight exploration licences covering 6,043 sq. km. The primary thrust of exploration on this project has been aimed at one licence in particular where geochemistry indicated good potential for the discovery of significant diamond-bearing rocks. Evaluation of the other seven licences is ongoing, where systematic geochemical exploration is facilitating the isolation of the most prospective areas. In the same period, the land package included in the Monopros project has also been reduced and now consists of two licences covering 586 sq. km.

Project Review

1997

- The two west Greenland Projects are submitted to Dia Met for review. One consists of 16 exploration licences covering 15,530 sq. km. The other consists of 1,972 sq. km over six exploration licences where Monopros, De Beers' Canadian subsidiary, is the operator.
- Heavy mineral samples are collected and analyzed to confirm the diamond indicator mineral chemistry reported by Monopros.
- Two joint venture option agreements are executed. The first is between Dia Met Minerals Ltd., Quadrant Resources Pty Ltd. and Canadian Mountain Minerals Ltd. Dia Met is to act as operator of the project. The second is between Dia Met and Monopros with Monopros as the operator.
- The due-diligence heavy mineral sampling identifies an area

Greenland
Till samples being shipped to Canada for processing.

Finland
Exploration targets are tested from the lake ice in winter with this highly mobile lightweight drill rig.

Finland
Geophysical technician collecting gravity readings in an effort to locate the source of an indicator mineral dispersion train.

strongly prospective for diamonds. It is decided to accelerate exploration in this area of the Citation/Cantex land package.

- 15,500 km of airborne geophysics is flown in the area of accelerated exploration (Citation/Cantex) in an effort to identify kimberlite targets. Monopros conducts airborne geophysical surveys with the same intent.
- Dia Met collects follow-up heavy mineral samples around airborne geophysical anomalies identified in the preliminary airborne geophysical data processed on site.
- Dia Met collects regional heavy mineral samples on the other exploration licences to identify which are prospective for diamonds.
- Dia Met, on behalf of the joint venture, relinquishes five of the original 16 exploration licences.
- Monopros conducts a geochemical sampling and prospecting program identifying several discreet indicator mineral trains and kimberlite float occurrences.
- Monopros, on behalf of the joint venture partners, relinquishes three exploration licences for a new project area of 1,107 sq. km.

1998

- A prospecting program is conducted by Dia Met in the accelerated exploration area in an effort to locate the sources of the most prospective geochemistry and to ground check anomalies identified in the airborne geophysics. During the course of the program more than 50 kimberlitic bodies are identified including dykes, sills and stringers.
- Dia Met conducts further follow-up sampling in the accelerated exploration area to help pinpoint the sources of the best geochemistry identified in the 1997-sampling program.
- Dia Met collects additional regional heavy mineral samples to assess the diamond potential of those licences not previously sampled and to focus in on geochemically anomalous areas defined by the samples collected in 1997.
- Dia Met Minerals earns its 31 per cent interest in the Citation/Cantex joint venture. Participants in the project include Dia Met Minerals Ltd. (35.78 per cent), Cantex Mine Development Ltd. (15.22 per cent) and Citation Resources Inc. (49 per cent).
- The total land package of the Dia Met/Citation/Cantex project is further reduced and currently consists of eight exploration licences covering 6,043 sq. km.
- Monopros conducts detailed, high-resolution airborne geophysics at the head of indicator mineral and kimberlite boulder trains in an effort to resolve the sources.
- Monopros conducts a drilling program in which 16 of 18 drill holes intersect kimberlitic bodies. Drill core is sent to its laboratory in South Africa for analysis.
- Additional prospecting and sampling is conducted by Monopros. Several new boulder trains and in-situ kimberlite bodies are identified and sampled for analysis.

1999

- Analysis of 238kg of rock from one of the kimberlitic bodies discovered by Dia Met in 1998 yields 11 micro-diamonds and significant quantities of indicator minerals with diamond inclusion chemistry.
- Dia Met conducts a ground geophysical program to detail the best airborne anomalies with supportive geochemistry. Results from this program will be used to plan a drilling program, tentatively scheduled to begin in late spring.
- One of the boulder trains sampled by Monopros returns 474 micro-diamonds and five macro-diamonds from 140 kg of rock. Further field checking of this body is planned for the 1999 field season.

Finland

100 per cent Dia Met Project; Ashton Mining / Dia Met Minerals Joint Venture

Dia Met Minerals Ltd. first identified that Finland is prospective for diamonds in 1994 through country-wide geochemical sampling. In the following two years the company identified the east-central part of the country as the most promising area in which to explore. Further geochemical sampling defined an area of approximately 40,000 sq. km near the town of Kuopio where exploration should be focused.

Ashton Mining Limited of Australia was also exploring the Kuopio area for diamonds for the preceding 10 years and had discovered 24 kimberlites, four of which contained macro diamonds in commercially significant quantities. In early 1998, Dia Met and Ashton entered into a joint venture option agreement, whereby Dia Met could earn a 60 per cent interest in Ashton's discoveries and any subsequent discoveries made outside the tenements already held by Dia Met. The joint venture option agreement covered two areas of Finland that Ashton had identified as prospective for diamonds and gave Dia Met access to the 10-year database that had been systematically compiled by Ashton during its tenure in Finland.

The diamond exploration projects in Finland demonstrate two of Dia Met's strengths as a competitive diamond explorer:

○ Being among the first companies to identify and enter into prospective new areas.

○ Its ability to work effectively in joint ventures and develop a sound working relationship with other diamond exploration companies.

To facilitate the ongoing exploration in Finland, Dia Met established a wholly owned subsidiary company in Finland, Oy Alwima Ltd. Since the execution of the joint venture, the exploration team in Finland has discovered one new kimberlite and an extension to one of those previously discovered by Ashton.

Project Review

1994

○ Dia Met undertakes a reconnaissance-sampling program over the whole of Finland in an effort to determine the diamond potential there.

1995

○ The Kuopio area is identified as prospective for diamonds.

○ A local heavy mineral sampling program is conducted to define the limits of the prospective area.

○ A 25,000 line-km airborne geophysical survey is conducted over the area of interest in an effort to identify potential kimberlite targets.

1996

○ A detailed heavy mineral sampling program is undertaken to establish discrete kimberlite indicator mineral trains that would also identify potential targets as well as prioritize targets identified in the geophysical data set.

○ Tenements are acquired over geophysical targets with supportive geochemistry.

1997

○ Ground geophysical surveys are conducted over prospective airborne geophysical targets in order to refine the confidence of a kimberlite source.

○ Further heavy mineral sampling is conducted to define both targets and areas where the potential for the discovery of a diamondiferous kimberlite is greatest.

○ Several geophysical targets are tested with drilling; however, no kimberlite bodies are discovered.

1998

○ A joint venture option agreement is executed between Dia Met and Ashton Mining to explore for diamonds in two separate areas of Finland.

○ Ashton's comprehensive, 10-year database is integrated with Dia Met's and carefully reviewed. An understanding of the geochemical and geophysical signatures of the discovered kimberlites enhances Dia Met's ability to discriminate between targets and eliminates repeating work already conducted by Ashton.

○ Ground and marine geophysical surveys are conducted within the Kuopio area to identify potential kimberlite targets.

○ Heavy mineral sampling using a combination of Ashton's proprietary acquisition technique and Dia Met's analytical expertise identifies several new prospective indicator mineral trains.

○ Drilling of a target proximal to a kimberlite previously discovered by Ashton intersects kimberlite, adding to the dimensions of that body.

○ Heavy mineral sampling in the second joint venture area is conducted in an effort to isolate areas of diamond potential.

1999

○ Drilling of combined geophysical and geochemical anomalies identifies a previously undiscovered kimberlite, bringing the total known bodies to 25.

○ Delineation drilling is conducted on one of the previously discovered kimberlites to assess the viability of progressing to the bulk sampling stage.

○ Ground geophysical surveys continue over most of the remaining prospective targets in the Kuopio area.

Management's Discussion and Analysis

The following discussion and analysis of the results of operations and the Company's financial position should be read in conjunction with the consolidated financial statements and related notes.

Revenue

For the fiscal year ended January 31, 1999 ("fiscal 1999"), the Company earned revenue of $5,577,911 compared to $5,881,715 for the fiscal year ended January 31, 1998 ("fiscal 1998"), and $3,141,783 for the fiscal year ended January 31, 1997 ("fiscal 1997").

Equity in earnings from Ekati Diamond Mine

In October 1998, the Ekati Diamond Mine commenced production, and the first sales were completed in January 1999. The Company's 29 per cent share of diamond sales was $3,766,235. The Company's share of earnings from these sales before interest on the mine financing and income and resource taxes was $1,738,161.

To January 31, 1999, the Ekati Diamond Mine produced 424,810 carats of diamonds. The first sales of 68,500 carats were completed in January 1999 at an average price per carat of US$123.62. The operations to January 31, 1999, are not indicative of the projected annual operations for the mine. The fiscal year ended January 31, 2000, will be the first complete year of operations at the Ekati Diamond Mine and will be more representative of future operations.

Aircraft operations

The Company, through its wholly owned subsidiary, 555550 BC Ltd. ("555"), owns one helicopter and an aircraft hangar which are leased at market rates to Northern Air Support Ltd. ("NAS"), a former wholly owned subsidiary of the Company. During fiscal 1999, the Company earned revenue of $284,860 from the lease of the helicopter and aircraft hangar, exclusive of amortization expense of $88,029. In fiscal 1999, revenue from aircraft operations decreased to $284,860 from $3,674,015 in 1998, and $2,277,271 in 1997 due to the sale of 90 per cent of the Company's interest in NAS in fiscal 1998. The Company recorded operating profit from aircraft operations of $63,959 in fiscal 1999 compared to operating losses of $601,657 in fiscal 1998 and $700,724 in fiscal 1997.

It is not the intention of the Company, at this time, to be actively engaged in aircraft operations in the foreseeable future, other than the lease of the helicopter and aircraft hangar.

Gain on disposal of capital assets

Prior to the fiscal 1998 year end, NAS sold its only aircraft and aircraft hangar to 555. The gain on disposal of capital assets in fiscal 1998 of $761,497 resulted from the disposal of two helicopters by NAS, one of which was replaced and subsequently sold to 555.

The Company sold 90 per cent of its interest in NAS in fiscal 1999 to a third party for the assumption of approximately $600,000 in debt owed by NAS to the Company. The gain of $39,496 resulted from this transaction. The remaining 10 per cent interest of NAS is carried as a portfolio investment.

Interest and other income

Large balances of cash and temporary investments held by the Company in fiscal 1999 and 1998 compared to fiscal 1997 resulted in significant increases in interest income in fiscal 1999 and 1998 over previous years. The large balances of cash and temporary investments resulted primarily from $38.5 million received in fiscal 1998 from a public offering of the Company's shares. A further $3.9 million was received in fiscal 1999 and $9.0 million was received in fiscal 1998 from the issuance of 305,300 shares in fiscal 1999 and 697,450 shares in fiscal 1998 on the exercise of director and employee stock options.

Expenses

Total expenses were $11,354,433 in fiscal 1999 as compared to $8,190,282 in fiscal 1998 and $4,897,980 in fiscal 1997.

Interest on obligations for the Ekati Diamond Mine

Interest expensed since the commencement of production was $5,189,876 and amortization of capitalized interest and direct expenditures was $418,184. Interest is payable on the obligations for the Ekati Diamond Mine at a rate of CDOR plus 3 per cent. Capitalized interest and direct expenditures by the Company relating to its investment in the Ekati Diamond Mine will be amortized on a straight-line basis over the estimated life of the mine. There was no interest expensed on the obligations for the Ekati Diamond Mine in fiscal 1998 or fiscal 1997.

Aircraft operations

Expenses, not including depreciation, were $132,872 in fiscal 1999, as compared to $4,176,752 in fiscal 1998 and $2,734,054 in fiscal 1997. The aircraft operations in fiscal 1999 and future years will be related to the lease of an aircraft hangar and helicopter that are owned by the Company.

Cost of mineral properties abandoned

The cost of mineral properties abandoned was $2,047,792 in fiscal 1999 compared to $1,707,041 in fiscal 1998 and $124,048 in fiscal 1997. The mineral properties written off in 1999 relate primarily to exploration programs carried out in western Canada and the western United States. Mineral properties written off in 1998 and 1997 relate primarily to exploration programs carried out in western Canada.

General and administrative

Included in total expenses are general and administrative expenses that increased to $3,397,331 in fiscal 1999 from $2,116,648 in fiscal 1998 and $1,692,585 in fiscal 1997. The increase between fiscal 1999 and 1998 is due primarily to increases in investor relations and corporate communications activities, an increase in professional fees and an increase in travel costs. Salaries and wages also increased due to an increased number of employees and increased activity of the Company. It is expected that the level of general and administrative expenditures in fiscal 2000 will remain at substantially the same level as fiscal 1999.

General and administrative costs increased to $2,116,648 in fiscal 1998 compared to $1,692,585 in fiscal 1997, due primarily to increases in employee related costs, an increase in expenditures in the investor relations and corporate communications areas, and an increase in provincial capital tax. These increases in expenses in fiscal 1998 were offset by a reduction in professional fee expenses incurred during the year compared to fiscal 1997.

The Company continues to pay substantial British Columbia General Corporation Capital Taxes that increased in fiscal 1998 with the construction of the Ekati Diamond Mine and have remained

at the same levels for fiscal 1999. The tax is assessed on the taxable capital of the Company which increased during the year because of the increase in issued share capital and the increase in the Company's obligations for the Ekati Diamond Mine, both of which are included in the taxable capital base on which the tax is assessed.

Income taxes

Income and federal capital tax expense is comprised entirely of Large Corporation Tax that increased substantially in each of the three fiscal years ending January 31. The tax expense increased from $3,996 in fiscal 1997 to $498,360 in fiscal 1998 and to $677,895 in fiscal 1999. The reasons for this increase parallel those set out above for provincial capital tax. Income taxes will increase in the future as revenue from the Ekati Diamond Mine increases.

Liquidity and Cash Resources

At January 31, 1999, the Company's cash position was $34,155,302, which was a decrease of $8,420,526 from January 31, 1998. At January 31, 1998, the Company's cash position was $42,575,828, an increase of $39,753,844 from January 31, 1997.

In all years until fiscal 1999, the primary sources of cash from operations were from interest income and from revenue from aircraft operations of the Company's subsidiary, NAS. In 1999, the Company's primary source of cash from operations was from interest income. Further cash of $3,864,581 was received in fiscal 1999 from the exercise of employee and director stock options. In fiscal 1998, cash totalling $47,554,891 was received from the issue of shares in a public offering and from the issue of shares on the exercise of director and employee stock options.

In addition to being used to cover operating expenses in all fiscal years, a significant use of cash in fiscal years 1999, 1998 and 1997 was for expenditures on mineral properties amounting to $6,585,675, $5,625,185, and $4,256,031, respectively. These expenditures are net of option payments applied to the cost of the mineral properties.

At January 31, 1999, the Company had working capital of $34,119,607, compared to working capital of $42,685,712 at January 31, 1998.

In September 1998, the Company made a normal course issuer bid to repurchase up to 150,000 Class A Subordinate Voting Shares and up to 350,000 Class B Multiple Voting Shares on the market during the period from September 16, 1998, to September 15, 1999. At January 31, 1999, the Company had repurchased 72,700 Class A shares and 198,300 Class B shares under the bid for a total cost of $5,471,353, including legal costs and brokerage fees. To March 26, 1999, a further 12,500 Class A shares and 36,800 Class B shares were repurchased for a total cost of $919,155 including brokerage fees. No decision has been made as to whether the purchased shares will be cancelled.

The Company anticipates incurring exploration expenditures in fiscal 2000 of between $6 million and $8 million, excluding any exploration expenditures to be funded from option payments received from third parties.

The final capital cost of the Ekati Diamond Mine was approximately $900 million, including contingencies. The capital cost includes all project costs to the start of production and pre-stripping costs for the first pipe to be put into production. Approximately $59 million US of the total capital costs to the start of production are not shareable costs between the joint venture participants and are to be borne exclusively by BHP Diamonds. The Company's share of Ekati Diamond Mine joint venture expenditures are financed by BHP Diamonds.

Interest and direct expenditures made by the Company in the Ekati Diamond Mine were capitalized until the commencement of production. These costs totaled $28,436,520 and are being amortized on a straight-line basis over the remaining life of the mine, expected to be at least 17 years. At January 31, 1999, the Company's investment in the Ekati Diamond Mine, after amortization, depletion and depreciation, was $274,028,176.

A syndicated bank loan of $236,000,000 and a loan payable to BHP Diamonds of $40,239,228 financed the Ekati Diamond Mine. Interest on the obligations for the Ekati Diamond Mine is payable at CDOR plus 3 per cent per annum compounded annually. The syndicated bank loan is secured firstly by the guarantee of BHP Diamond's parent company, Broken Hill Proprietary Company Limited of Australia, and secondly by the Company's interests in the Ekati Diamond Mine. The payable to BHP Diamonds is secured by the Company's interest in the Ekati Diamond Mine.

Repayment of the aggregate principal amount of the syndicated bank loan will by made by BHP Diamonds in equal quarterly installments until May 25, 2001, on which date a final payment of the unpaid balance, together with accrued interest and fees, and any other amounts owing to such date, is due. The obligations for the Ekati Diamond Mine will be repaid by the Company at CDOR plus 3 per cent per annum from the Company's share of the net after tax cash flow from operations at the Ekati Diamond Mine.

The cash and working capital position at January 31, 1999, and the expected earnings from interest and other income in fiscal 2000, should be sufficient to provide adequate working capital for the operations of the Company for the next twelve months.

Year 2000 Issues

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations.

Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at January 31, 1999, the Company has completed an assessment of the Year 2000 readiness of its computer systems and all planned modifications or replacements are complete. An assessment of the readiness of third parties, such as business partners, suppliers and others is ongoing. However, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the Company, including those related to the efforts of business partners, suppliers, or other third parties, will be fully resolved.

BHP Diamonds, as operator of the Ekati Diamond Mine, has reported to the Company that the assessment and implementation phases of the mine's Year 2000 program is complete and that the testing phase of its program is expected to be complete by the end of July 1999.

Given the information known at this time, it is currently not expected that the costs of becoming Year 2000 compliant will have a material adverse impact on the Company's liquidity or its operations.

Management's Responsibility for Financial Statements

The consolidated financial statements, the notes thereto and other financial information contained in the annual report are the responsibility of the management of Dia Met Minerals Ltd. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and reflect management's best estimates and judgments based on currently available information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee, which is comprised of Directors, none of whom are employees or officers of the Company, meets with management as well as the external auditors to satisfy itself that management is properly discharging its financial reporting to Directors who approve the consolidated financial statements.

The consolidated financial statements have been audited by KPMG LLP, the independent auditors, in accordance with generally accepted auditing standards. The auditors have full and unrestricted access to the audit committee.

James E. Eccott Shannon Ross

James E. Eccott
President and
Chief Executive Officer

Shannon Ross
Secretary and
Controller

Kelowna,
British Columbia
March 26, 1999

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Dia Met Minerals Ltd. as at January 31, 1999 and 1998 and the consolidated statements of operations and deficit, mineral properties and cash flows for the years ended January 31, 1999, 1998 and 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 1999 and 1998 and the results of its operations, and changes in its financial position for the years ended January 31, 1999, 1998 and 1997 in accordance with generally accepted accounting principles in Canada.

Accounting principles generally accepted in Canada vary in certain significant respects from accounting principles generally accepted in the United States. Application of accounting principles generally accepted in the United States would have affected results of operations for the years ended January 31, 1999, 1998 and 1997 and shareholders' equity as at January 31, 1999 and 1998, to the extent summarized in note 13 to the consolidated financial statements.

KPMG LLP

Chartered Accountants

Kelowna, Canada
March 26,1999

Consolidated Balance Sheets

January 31, 1999 and 1998

	1999	1998
ASSETS		
Current assets		
Cash	$ 93,251	$ 7,784,985
Temporary investments *(note 2(e))*	34,062,051	34,790,843
Amounts receivable	1,499,382	1,395,491
Inventory	46,870	143,202
	35,701,554	44,114,521
Cash restricted for exploration	—	570,377
Capital assets *(note 3)*	2,492,812	2,655,880
Mineral properties		
Mineral and exploration interests *(note 4)*	752,497	607,413
Deferred exploration and development costs *(note 5)*	16,768,965	12,376,166
Investment in the Ekati Diamond Mine *(note 6)*	274,028,176	173,492,531
	291,549,638	186,476,110
	$ 329,744,004	$ 233,816,888
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,384,947	$ 939,134
Income taxes payable	197,000	489,675
	1,581,947	1,428,809
Obligations for the Ekati Diamond Mine *(note 7)*	276,239,228	171,833,684
Option payments	—	570,377
Shareholders' equity		
Share capital *(note 8)*	76,319,432	72,454,851
Shares repurchased under normal course issuer bid *(note 8)*	(5,471,353)	—
Deficit	(18,925,250)	(12,470,833)
	51,922,829	59,984,018
Agreements, commitments and contingencies *(note 9)*		
Related party transactions *(note 10)*		
Subsequent events *(note 11)*		
	$ 329,744,004	$ 233,816,888

See accompanying notes to consolidated financial statements

Approved by the Board

James E. Eccott

K.A. Christofferson

James E. Eccott, Director

Keith A. Christofferson, Director

Consolidated Statements of Operations and Deficit

	Years ended January 31, 1999	1998	1997
Revenue			
Equity in earnings from Ekati Diamond Mine	$ 1,738,161	$ —	$ —
Aircraft operations	284,860	3,674,015	2,277,271
Diamond recovery plant operations	—	—	35,383
Gain on disposal of capital assets	39,496	761,497	—
Interest and other income	3,515,394	1,446,203	829,129
	5,577,911	5,881,715	3,141,783
Expenses			
Amortization of capitalized interest and direct expenditures on the Ekati Diamond Mine	418,184	—	—
Interest on obligations for the Ekati Diamond Mine	5,189,876	—	—
Aircraft operations	132,872	4,176,752	2,734,054
Diamond recovery plant operations	3,407	13,104	61,274
Cost of mineral properties abandoned	2,047,792	1,707,041	124,048
Depreciation	164,971	176,737	286,019
General and administrative	3,397,331	2,116,648	1,692,585
	11,354,433	8,190,282	4,897,980
Loss before income taxes	(5,776,522)	(2,308,567)	(1,756,197)
Income taxes *(note 12)*	(677,895)	(498,360)	(3,996)
Loss for the year	(6,454,417)	(2,806,927)	(1,760,193)
Deficit, beginning of year	(12,470,833)	(9,663,906)	(7,903,713)
Deficit, end of year	$ (18,925,250)	$ (12,470,833)	$ (9,663,906)
Loss per share *(note 2(m))*	$ (0.21)	$ (0.10)	$ (0.06)
Weighted average number of common shares outstanding	30,298,886	29,334,779	27,385,120

See accompanying notes to consolidated financial statements

Consolidated Statements of Mineral Properties

	Years ended January 31, 1999	1998	1997
Expenditures during the year for mineral and exploration interests and deferred exploration and development			
Mineral and exploration interests	$ 185,925	$ 196,334	$ 325,949
Deferred exploration and development			
Claims exploration, laboratory, assay and engineering expenditures	8,334,372	8,127,889	5,513,657
Management fees and salaries	883,833	182,914	120,854
Office and other	115,142	360,075	23,883
Professional fees	89,727	204,417	210,512
Travel and other	115,164	123,440	139,853
	9,538,238	8,998,735	6,008,759
	9,724,163	9,195,069	6,334,708
Option payments applied	(3,138,488)	(3,569,884)	(2,078,677)
	6,585,675	5,625,185	4,256,031
Cost of programs abandoned			
Mineral and exploration interests	(40,841)	(7,863)	—
Deferred exploration and development costs	(2,006,951)	(1,699,178)	(124,048)
	(2,047,792)	(1,707,041)	(124,048)
	4,537,883	3,918,144	4,131,983
Investment in the Ekati Diamond Mine			
Equity in joint venture expenditures and capitalized interest	100,953,829	171,833,684	—
Amortization of capitalized interest and direct expenditures	(418,184)	—	—
	100,535,645	—	—
Balance, beginning of year	186,476,110	10,724,282	6,592,299
Balance, end of year	$ 291,549,638	$ 186,476,110	$ 10,724,282

See accompanying notes to consolidated financial statements

Consolidated Statements of Cash Flows

	Years ended January 31, 1999	1998	1997
Cash provided by (used in)			
Operations			
Loss for the year	$ (6,454,417)	$ (2,806,927)	$ (1,760,193)
Items not involving cash:			
Gain on disposal of capital assets	(39,496)	(761,497)	—
Depreciation and amortization	583,155	176,737	286,019
Cost of mineral properties abandoned	2,047,792	1,707,041	124,048
Changes in non-cash operating working capital			
Amounts receivable	(103,891)	(734,606)	454,272
Inventory	96,332	(11,812)	(23,770)
Accounts payable and accrued liabilities	445,813	(21,923)	267,770
Income taxes payable	(292,675)	489,675	—
	(3,717,387)	(1,963,312)	(651,854)
Investing activities			
Expenditures on mineral and exploration interests	(185,925)	(196,334)	(325,949)
Expenditures on deferred exploration and development	(9,538,238)	(8,998,735)	(6,008,759)
Investment in Ekati Diamond Mine	(100,953,829)	(171,833,684)	—
Purchases of capital assets	(142,210)	(1,986,197)	(769,827)
Proceeds from disposal of capital assets	179,803	2,145,470	—
	(110,640,399)	(180,869,480)	(7,104,535)
Financing activities			
Option payments applied to expenditures on mineral properties	3,138,488	3,569,884	2,078,677
Increase (decrease) in long term debt	—	(371,823)	371,823
Increase in obligations for the Ekati Diamond Mine	106,143,705	171,833,684	—
Earnings from Ekati Diamond Mine applied to reduce obligations	(1,738,161)	—	—
Shares issued for cash	3,864,581	47,554,891	1,239,125
Shares repurchased under normal course issuer bid	(5,471,353)	—	—
	105,937,260	222,586,636	3,689,625
Increase (decrease) in cash	(8,420,526)	39,753,844	(4,066,764)
Cash, beginning of year	42,575,828	2,821,984	6,888,748
Cash, end of year	$ 34,155,302	$ 42,575,828	$ 2,821,984
Cash is defined as			
Cash	$ 93,251	$ 7,784,985	$ 269,268
Temporary investments	34,062,051	34,790,843	2,629,915
Loan payable	—	—	(77,199)
	$ 34,155,302	$ 42,575,828	$ 2,821,984

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Years ended January 31, 1999, 1998 and 1997

1. Nature of operations

Dia Met Minerals Ltd. is incorporated under the laws of British Columbia and its principal business activities include mineral property exploration and development, and mining, processing, and sale of diamonds via its equity investment in the Ekati Diamond Mine (see note 6), which commenced production in October 1998.

2. Significant accounting policies

a) Basis of presentation

The Company, directly and indirectly through joint exploration and development ventures and other arrangements, is in the process of exploring and developing its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable, except for the property associated with the Ekati Diamond Mine.

The recoverability of the amounts shown for mineral properties and capital assets of $291,549,638 and $2,492,812, respectively, as at January 31, 1999, other than costs of $274,028,176 associated with the Ekati Diamond Mine, is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the development of the properties and the generation of sufficient income through future production from, or the disposition of, such assets.

These financial statements have been prepared on the basis of accounting principles generally accepted in Canada and are expressed in Canadian dollars. The results of applying accounting principles generally accepted in the United States are set out in note 13.

b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

d) Fair values of financial instruments and credit risk

The carrying amounts for cash, amounts receivable, accounts payable and accrued liabilities and income taxes payable approximate fair value because of the short term nature of these instruments. The fair value of temporary investments is disclosed in note 2(e). The carrying amount of the bank loan and payable to BHP Diamonds Inc. included in the obligations for the Ekati Diamond Mine approximate fair value because their interest rates fluctuate with the market. Credit risk on amounts receivable is limited to the outstanding balance of such accounts.

e) Temporary investments

Temporary investments are stated at the lower of cost and quoted market value.

	1999	1998
Quoted market value	$ 35,012,480	$ 36,558,171

f) Inventory

Inventory is stated at the lower of cost and net realizable value.

g) Capital assets

Capital assets are stated at cost. Depreciation is provided using the following methods and annual rates:

Asset	Method	Rate
Aircraft operations		
Aircraft	Straight-line	20%
Utility and shop equipment	Declining balance	20%
Operations equipment	Declining balance	20%
Office equipment	Declining balance	20% and 30%
Building	Straight-line	4%
License	Straight-line	2.5%
Leasehold improvements	Straight-line	20%
Diamond recovery plant		
Building	Straight-line	2.5%
Machinery and equipment	Straight-line	2.5%
Furniture and fixtures	Straight-line	10%
Head office		
Computer software	Declining balance	100%
Furniture, fixtures and equipment	Declining balance	15%
Leasehold improvements	Straight-line	20%
Exploration		
Equipment	Declining balance	15%

2. Significant accounting policies *(continued)*

h) Mineral properties

The amount shown for mineral properties includes the direct costs of acquiring, maintaining, exploring and developing properties, an allocation of management fees and salaries based on time spent and other costs directly related to specific properties. All other costs, including administrative overhead, are expensed as incurred. Mineral properties acquired for share consideration are recorded at the fair value of the shares at the date of acquisition.

Management periodically reviews the carrying values of its investments in mineral properties with internal and external mining professionals. A decision to abandon, reduce or expand activity on a specific project is based upon many factors including general and specific assessments of mineral reserves, anticipated future mineral prices, anticipated costs of developing and operating a producing mine, the expiration date of mineral property leases and the general likelihood that the Company will continue exploration on the project. The Company does not set a pre-determined holding period for properties with unproved reserves. However, properties which have not demonstrated suitable prospects at the conclusion of each phase of an exploration program are re-evaluated to determine if future exploration is warranted and that carrying values are appropriate.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral and exploration interests and deferred exploration and development costs represent unamortized costs to date and do not necessarily reflect present or future values.

The accumulated costs of mineral properties that are developed to the stage of commercial production will be amortized to operations through a combination of unit of production depletion based on proven and probable reserves and other reasonable and systematic methods of amortization. The actual methods and rates used will depend on the nature of the assets being amortized.

i) Capitalized interest and direct expenditures on the Ekati Diamond Mine

Interest and direct expenditures related to mine development were capitalized until the mine commenced production, at which time amortization of such costs commenced. Since the commencement of production all interest has been charged to operations. Amortization is provided on a straight-line basis over the expected remaining life of the mine.

j) Joint exploration and development ventures

A portion of the Company's exploration and development activities is conducted jointly with others and accordingly these financial statements reflect only the Company's share of expenditures for such activities.

k) Investment in the Ekati Diamond Mine

The Company accounts for its investment in the Ekati Diamond Mine using the equity method because it is able to exercise significant influence but not control, or joint control, over the Mine. Under this method, the Company includes in earnings its share of the earnings or losses of the Ekati Diamond Mine.

l) Foreign currency translation

Amounts denominated in foreign currencies have been translated into Canadian dollars as follows:

i) Monetary assets and liabilities at the rate of exchange prevailing at the balance sheet date;
ii) Non-monetary assets and liabilities at the rate of exchange prevailing at the time of acquisition of the assets or assumption of the liabilities; and
iii) Revenue and expenses at rates approximating the rates of exchange prevailing on the transaction date except for depreciation, which is translated at the same rate as the assets it relates to.

Gains or losses on translation are included in earnings.

m) Loss per share

Loss per share has been calculated using the weighted average number of common shares outstanding during the years. The full exercise of share options referred to in note 8 is anti-dilutive for all years presented and consequently loss per share on a fully diluted basis has not been presented.

3. Capital assets

1999	Cost	Accumulated depreciation	Net book value
Aircraft operations			
Aircraft	$ 1,734,213	$ 125,773	$ 1,608,440
Building	322,567	53,064	269,503
	2,056,780	178,837	1,877,943
Diamond recovery plant			
Land	13,934	—	13,934
Building	48,346	6,043	42,303
Machinery and equipment	84,540	10,567	73,973
Furniture and fixtures	15,000	7,350	7,650
	161,820	23,960	137,860
Head office			
Computer equipment	117,176	27,156	90,020
Furniture and equipment	148,038	53,004	95,034
Leasehold improvements	136,107	50,507	85,600
	401,321	130,667	270,654
Exploration			
Equipment	273,308	66,953	206,355
	$ 2,893,229	$ 400,417	$ 2,492,812

1998	Cost	Accumulated depreciation	Net book value
Aircraft operations			
Aircraft	$ 1,707,237	$ 56,944	$ 1,650,293
Utility and shop equipment	33,868	11,629	22,239
Operations equipment	83,784	25,114	58,670
Office equipment	34,117	15,447	18,670
Building	322,567	33,864	288,703
License	36,559	2,267	34,292
Leasehold improvements	7,150	715	6,435
	2,225,282	145,980	2,079,302
Diamond recovery plant			
Land	13,934	—	13,934
Building	48,346	4,834	43,512
Machinery and equipment	84,540	8,454	76,086
Furniture and fixtures	15,000	6,000	9,000
	161,820	19,288	142,532
Head office			
Computer equipment	103,822	23,473	80,349
Furniture and equipment	133,317	40,115	93,202
Leasehold improvements	55,301	30,705	24,596
	292,440	94,293	198,147
Exploration			
Equipment	280,826	44,927	235,899
	$ 2,960,368	$ 304,488	$ 2,655,880

Notes to Consolidated Financial Statements

Years ended January 31, 1999, 1998 and 1997

4. Mineral and exploration interests

Program	Nature of interest	Carrying value 1999	Carrying value 1998
Northern Gold and Bandit interest	1% net smelter royalty	$ 1	$ 39,297
Finland program	100% of exploration program	696,778	522,283
Paul Mike program	Joint exploration program	55,717	44,287
Jack claims	100% of mineral claims	1	1,546
		$ 752,497	$ 607,413

5. Deferred exploration and development costs

Deferred exploration and development costs have been incurred, net of write-downs, on mineral and exploration interests as follows:

	1999	1998
Northern Gold and Bandit interest (see note 9(a))	$ 1	$ 899,601
Nevada Gold joint venture (see note 9(b))	223,345	51,506
Finland program (see note 9(c))	9,176,384	8,021,525
Finland joint venture (see note 9(d))	2,106,466	—
Russia program (see note 9(e))	2,012,538	1,367,586
Magnesite Belt program (abandoned 1999)	—	67,921
Paul Mike program (see note 9(f))	420,611	420,611
West Greenland program (see note 9(g))	2,159,606	707,625
West Greenland joint venture (see note 9(h))	461,714	39,173
Jack claims	—	372,405
Other	208,300	428,213
	$ 16,768,965	$ 12,376,166

6. Investment in the Ekati Diamond Mine

The Company's investment in the Ekati Diamond Mine is held in two joint ventures consisting of the following:

a) **Investment in the Core and Buffer Zone Joint Ventures**

Joint Venture	Core Zone	Buffer Zone	Total 1999	Total 1998
Company's interest	29.0%	7.8%		
Current assets	$ 21,424,105	$ —	$ 21,424,105	$ 1,997,265
Capital assets				
Equipment and facilities	129,106,509	—	129,106,509	102,521,394
Exploration and development	74,592,765	738,404	75,331,169	48,338,507
Deferred stripping	20,798,779	—	20,798,779	7,353,840
Total assets	245,922,158	738,404	246,660,562	160,211,006
Less liabilities	(650,722)	—	(650,772)	(3,268,703)
Company's equity in net assets of the joint venture	$ 245,271,436	$ 738,404	246,009,840	156,942,303

	Total 1999	Total 1998
b) **Capitalized interest, net of accumulated amortization of $393,789 (1998 – nil)**	26,383,884	14,891,381
	272,393,724	171,833,684
c) **Direct expenditures on the Ekati Diamond Mine, net of accumulated amortization of $24,395 (1998-nil)**	1,634,452	1,658,847
	$ 274,028,176	$ 173,492,531

The Ekati Diamond Mine commenced production in October 1998. The first sales by the mine were made in January 1999 and are reflected in the consolidated statements of operations and deficit.

Earnings from the Ekati Diamond Mine operations reflected in the consolidated statement of operations for 1999 are comprised of the following:

Revenue	$ 3,766,235
Cost of sales	1,484,260
Depreciation, depletion and amortization	543,814
Earnings before interest and income and resource taxes	$ 1,738,161

BHP Diamonds Inc., the joint venture participant holding a 51% interest, must provide, arrange and/or guarantee financing for the other joint venture participants for their share of the first mine as long as its joint venture interest does not fall below 50%. The Company must repay its share of the mine financing plus interest at CDOR plus 3% per annum from its share of the net after tax cash flow from the mine until fully repaid. If 90% of the Company's net after tax cash flow is sufficient for three consecutive quarters to meet the Company's mine financing repayment obligations, subsequent repayments are to be made from 90% of the Company's net after tax cash flow from the mine.

The Company must pay a royalty to a joint venture participant ranging from $2.8002 to $23.4210 per undiluted tonne for certain production in excess of 1,379,000 undiluted tonnes from the Misery Pipe which is included in the Core Zone. Based upon existing production schedules, these royalty payments will commence in the year 2005.

The Company has a commitment to issue to two directors a total of 125,000 Class A shares and 500,000 Class B shares if there are more than 300 days of commercial production from a mine in this venture.

7. Obligations for the Ekati Diamond Mine

Obligations for the Ekati Diamond Mine consist of the following amounts:

	1999	1998
Bank loan maturing May 28, 1998	$ —	$ 118,500,000
Payable to BHP Diamonds Inc.	40,239,228	53,333,684
Syndicated bank loan	236,000,000	—
	$ 276,239,228	$ 171,833,684

Interest accrues on the above obligations at CDOR plus 3% per annum compounded annually. The syndicated bank loan is secured firstly by the guarantee of Broken Hill Proprietary Company Limited and secondly by the Company's interest in the Ekati Diamond Mine. There is no other recourse against the Company for this loan. The payable to BHP Diamonds Inc. is secured by the Company's interest in the Ekati Diamond Mine.

Repayment of the aggregate principal amount of the syndicated bank loan together with interest and fees is to be made in scheduled instalments by BHP Diamonds Inc. to May 25, 2001. The Company must repay BHP Diamonds Inc. under the terms described in note 6.

8. Share capital

a) Authorized

100,000,000 Class A Subordinate Voting Shares, without par value, entitled to one vote per share and in certain circumstances are convertible to one Class B share.

25,000,000 Class B Multiple Voting Shares, without par value, entitled to ten votes per share and are convertible to one Class A share.

The Class A and Class B shares have the same rights and are equal in all respects except as stated above.

8. Share capital *(continued)*

b) Issued

The following changes occurred to issued share capital during the periods indicated:

	Number of Class A shares	Amount related to Class A shares	Number of Class B shares	Amount related to Class B shares	Amount related to all shares
Balance, January 31, 1997	5,839,824	$ 8,782,161	21,545,296	$ 16,117,799	$ 24,899,960
Issued for cash on exercise of options	322,250	3,872,840	375,200	5,146,160	9,019,000
Issued for cash on public offering	1,980,000	38,535,891	—	—	38,535,891
Balance, January 31, 1998	8,142,074	51,190,892	21,920,496	21,263,959	72,454,851
Issued for cash on exercise of options	252,300	3,027,181	53,000	837,400	3,864,581
Balance, January 31, 1999	8,394,374	$ 54,218,073	21,973,496	$ 22,101,359	$ 76,319,432

c) Commitment

The Company has a commitment to issue 125,000 Class A shares and 500,000 Class B shares under circumstances disclosed in note 6.

d) Stock options

The directors and certain employees have been granted options to purchase shares of the Company as follows:

Expiry date	Price per share	Outstanding January 31, 1998	Issued	Exercised	Outstanding January 31, 1999
Class A shares:					
March 10, 1998	$ 15.80	17,000	—	17,000	—
September 23, 2004	$ 13.37	625,000	—	—	625,000
February 21, 2005	$ 9.25	460,000	—	98,600	361,400
July 19, 2005	$ 12.00	6,000	—	—	6,000
January 4, 2006	$ 12.50	40,000	—	10,500	29,500
February 5, 2006	$ 11.25	167,500	—	90,000	77,500
April 9, 2006	$ 16.75	50,000	—	—	50,000
June 14, 2006	$ 19.20	27,000	—	22,000	5,000
November 15, 2006	$ 19.50	448,300	—	11,300	437,000
February 17, 2007	$ 20.75	100,000	—	—	100,000
April 28, 2007	$ 20.70	100,000	—	2,900	97,100
November 27, 2007	$ 22.00	32,000	—	—	32,000
January 28, 2008	$ 24.00	25,000	—	—	25,000
March 24, 2008	$ 23.20	—	50,000	—	50,000
July 10, 2008	$ 21.10	—	240,000	—	240,000
		2,097,800	290,000	252,300	2,135,500
Class B shares:					
March 10, 1998	$ 15.80	53,000	—	53,000	—
		53,000	—	53,000	—

The expiry date of the above options may be earlier in certain circumstances.

e) **Shares repurchased under normal course issuer bid**

The Company made a normal course issuer bid to purchase up to 150,000 Class A shares and up to 350,000 Class B shares on the market during the period from September 16, 1998, to September 15, 1999.

At January 31, 1999, the Company had purchased 72,700 Class A shares and 198,300 Class B shares under the bid for a total cost of $5,471,353, including legal costs and brokerage fees. No decision has been made as to whether these shares will be cancelled.

9. Agreements, commitments and contingencies

a) **Northern Gold and Bandit interest**

The Company has a carried 1% net smelter royalty interest and other interests in 600 units of mineral claims. Royalties will be paid after first deducting $228,573 from any such royalties. The interest in this property was written down to a nominal carrying value of $1 to more accurately reflect current mineral prices and the early stage of exploration on this project.

b) **Nevada Gold joint venture**

The Company has a 51% participating interest in certain claims and areas of interest, which are held in a joint venture with another party. The other party paid a total of $4,000,000 to acquire their 49% participating interest and all such funds were used for exploration expenditures on programs conducted under the joint venture agreement. The agreement provides formulas for dilution and the calculation of net profit interests in various circumstances. Joint venture exploration expenditures in excess of $4,000,000 will be funded by each party in proportion to each party's participating interest in the joint venture.

c) **Finland program**

The Company has an obligation to pay a third party up to a 1% net smelter return royalty in respect of certain properties acquired in Finland by the Company as a result of exploration done under a consulting agreement with the third party. The Company will have the right to buy out two thirds of this royalty for $2,000,000 US at any time within the first five years after commencement of commercial production of the first mine, and the remaining one third of the royalty for $1,000,000 US within the second five years.

d) **Finland joint venture**

A wholly owned subsidiary of the Company entered into an option agreement to acquire a 60% interest in certain claims in Finland owned by a third party. In order to exercise the option, the subsidiary must incur exploration or other defined expenditures or payments on the property of $1,000,000 by December 31, 1998, a further $1,000,000 by December 31, 1999, and a further $2,000,000 by December 31, 2000.

On exercise of the option, the subsidiary will enter into a joint venture agreement with the third party.

e) **Russia program**

On August 7, 1995, the Company was granted an exploration license by the Russian government. The license is for five years and allows the Company to investigate and explore within an area of interest. Under the terms of the license, the Company must pay to the Russian government an annual payment equal to 2% of the cost of the field exploration expenditures incurred in the area of interest. Other terms of the license relate to the possible reimbursement by third parties of the investigation and exploration costs incurred by the Company plus interest at 20% per annum, should the Company not proceed to mining in the area of interest and should mining proceed by another party.

f) **Paul Mike program**

The Company granted an option to a third party to acquire a 49% interest in the Paul Mike claims held by the Company. Under the terms of the option agreement the third party has paid $800,000 and must pay a further $1,200,000 by June 1, 1999, to exercise their option. All funds received have and will be used to fund exploration expenditures related to the property. As of January 31, 1999, the Company has spent $811,735 on behalf of the third party in excess of funds received from the third party. This amount has been included in amounts receivable at January 31, 1999.

On exercise of the option, the Company will enter into a joint venture with the other party.

g) **West Greenland program**

The Company acquired a 31% interest in certain exploration licenses located in West Greenland during the 1999 fiscal year and entered into a joint venture with the two other owners of the licenses. The Company and the other parties to the joint venture are required to fund all exploration expenditures after October 15, 1998, in proportion to their respective interests. If the Company or either of the other parties elect not to contribute their prorata share of the expenditure commitments, the other parties may do so, and their interests will be increased accordingly. If a non-paying party's interest is reduced to 8%, its interest will be converted to a 1% royalty on production from the property.

h) **West Greenland joint venture**

The Company acquired a 49% interest in a joint venture from a third party. Under the terms of the purchase agreement, the Company has an obligation to the third party for a cash flow interest equal to 40.816% of the Company's share of all net proceeds received by the Company from the sale of diamonds or other minerals from the joint venture property. The third party is obligated to fund 40.816% of any amount required to be funded by the Company under the joint venture agreement. If this obligation is not met, the third party's cash flow interest will be decreased from 40.816% to 1%.

If the Company's 49% interest in the joint venture converts to a royalty interest, then the third party will be entitled to receive 40.816% of any such royalty.

10. Related party transactions

The Company entered into transactions with related parties as summarized below:

	1999	1998	1997
Exploration and development expenditures charged by companies over which a director of the Company has significant influence	**$ 2,673,755**	$ 2,604,999	$ 2,605,061
Professional fees paid to two directors and an officer of the Company	**$ 281,370**	$ 218,750	$ 204,607

Included in accounts payable and accrued liabilities at January 31, 1999, is $225,678 (January 31, 1998 - $109,875) payable to companies over which a director of the Company has significant influence.

11. Subsequent events

Subsequent to January 31, 1999:

a) The Company granted options to directors and employees to purchase 171,000 Class A shares at a price of $16.69 per share, exercisable by March 17, 2009.

b) A total of 25,000 Class A shares were issued for cash of $334,250 on exercise of director share options.

c) A memorandum of understanding was signed by BHP Diamonds Inc., on behalf of the Ekati Diamond Mine, and De Beers Centenary for the sale of 35% of the run-of-mine production from the Ekati Diamond Mine over a three-year period. The final arrangement will require appropriate regulatory approvals which management expects to be completed by mid-1999.

d) The Company signed a memorandum of understanding with a third party to enter into an option and joint venture agreement under which the Company may acquire a 70% interest in a prospecting license covering an area of 1,111,875 hectares located in Sweden. To acquire the interest, the Company must carry out a work program totalling $1,500,000 over three years in annual work commitments of $500,000. If the Company withdraws from the project after the first year's work commitment of $500,000, its share will revert to a 1% net smelter royalty.

e) The Company purchased an additional 12,500 Class A shares and 36,800 Class B shares for a total cost of $919,155 including brokerage fees, under the Normal Course Issuer Bid.

12. Income taxes

As at January 31, 1999, the Company had renounced in favor of investors, a total of $2,856,405 in income tax deductions related to the expenditure of funds on the Company's mineral properties.

As at January 31, 1999, the Company has the following amounts available to reduce future years' income for tax purposes, the tax effect of which has not been recorded in the accounts:

Non capital losses carried forward available until the year	- 2003	$ 4,482,165
	- 2004	895,371
	- 2005	893,537
	- 2006	237,285
Amounts deducted for accounting purposes in excess of those deducted for tax purposes		10,161,867
		$ 16,670,225

Income taxes reported on the Consolidated Statements of Operations and Deficit represent large corporation's tax, which is independent of amounts available to reduce income for tax purposes.

The Company also has available capital losses of $173,335 which may be carried forward indefinitely to reduce future years' capital gains.

13. Differences between Canadian and United States generally accepted accounting principles (GAAP)

a) **Deferred income taxes**

In accordance with Statement of Financial Accounting Standards No. 109, income taxes are accounted for under the asset and liability method. The Company has determined that the application of Statement 109 for United States reporting purposes has no effect on its financial statements. Any deferred income taxes initially recognized for non-capital losses carried forward would be fully offset by a valuation allowance as at each year end.

b) **Cash and cash equivalents**

Temporary investments held by the Company include primarily government and corporate bonds, term deposits and other high grade government and corporate paper all having varying maturity dates ranging from March 1, 1999, to September 8, 2023, but all are capable of prompt liquidation. Such temporary investments are considered to be cash or cash equivalents under Canadian GAAP. Under United States GAAP, cash equivalents exclude any items whose maturities extend beyond 90 days at the time of acquisition. The effect of applying the United States GAAP definition of cash and cash equivalents on the consolidated statements of cash flows for the years presented is as follows:

	Years ended January 31, 1999	1998	1997
Cash and cash equivalents under Canadian GAAP	**$ 34,155,302**	$ 42,575,828	$ 2,821,984
Loan payable	**—**	—	77,199
Items with original maturities greater than 90 days	**(34,062,051)**	(34,790,843)	(2,629,915)
Cash and cash equivalents under United States GAAP	**$ 93,251**	$ 7,784,985	$ 269,268

In addition, the following disclosure would be made under United States GAAP in the consolidated statements of cash flows for changes in loan payable and changes in temporary investments:

	Years ended January 31, 1999	1998	1997
Cash provided by financing activities under Canadian GAAP	**$ 103,315,495**	$ 222,568,636	$ 3,689,625
Increase (decrease) in loan payable	**—**	(77,199)	(830,651)
Cash provided by financing activities under United States GAAP	**$ 103,315,495**	$ 222,491,437	$ 2,858,977

	Years ended January 31, 1999	1998	1997
Cash used in investing activities under Canadian GAAP	**$(110,640,399)**	$ (180,869,480)	$ (7,104,535)
Purchases of temporary investments	**(25,577,212)**	(57,184,956)	—
Principal payments and proceeds on redemption of temporary investments	**(3,610)**	29,492	39,097
Proceeds on sale of temporary investments	**24,271,669**	24,994,536	5,023,481
Cash used in investing activities under United States GAAP	**$(111,949,552)**	$ (213,030,408)	$ (2,041,957)

d) **Temporary investments**

In accordance with Statement of Financial Accounting Standards No. 115, the Company's temporary investments would be classified as available for sale. Under Statement No. 115, unrealized holding gains of $950,429 and $1,767,328 would be recognized as an increase in temporary investments and shown as a separate component of shareholders' equity as at January 31, 1999 and 1998, respectively.

e) **Loss**

The following table provides a reconciliation of the loss determined under Canadian GAAP with the loss determined under United States GAAP:

	Years ended January 31, 1999	1998	1997
Loss determined under Canadian GAAP	**$ (6,454,417)**	$ (2,806,927)	$ (1,760,193)
Discount amortization of previous write down of temporary investments to market	**848**	(15,154)	(146,735)
Loss determined under United States GAAP	**$ (6,453,569)**	$ (2,822,081)	$ (1,906,928)

13. Differences between Canadian and United States generally accepted accounting principles (GAAP) *(continued)*

f) **Loss per share**

Loss per share would be as follows under United States GAAP:

	Years ended January 31, 1999	1998	1997
Loss per share	$ (0.21)	$ (0.10)	$ (0.07)

For United States GAAP purposes, the Company has adopted Statement of Financial Accounting Standards No. 128.

14. Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems, which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure, which could affect an entity's ability to conduct normal business operations.

Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at January 31, 1999, the Company has completed an assessment of the year 2000 readiness of its computer systems and all planned modifications or replacements are complete. An assessment of the readiness of third parties, such as business partners, suppliers and others is ongoing.

It is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of business partners, suppliers, or other third parties, will be fully resolved.

The Board of Directors of the Company believes that sound corporate governance practices are essential to the well being of the Company and its shareholders, and that these practices should be reviewed regularly to ensure that they are appropriate. A description of the Company's corporate governance practices follows. This Statement of Corporate Governance Practices has been prepared by the Corporate Governance Committee of the Board of Directors and has been approved by the Board of Directors.

The By-Laws of the Toronto Stock Exchange require that this Statement of Corporate Governance Practices relate the corporate governance practices of the Board of Directors to the "Guidelines for Improved Corporate Governance" contained in the December, 1994 Report of The Toronto Stock Exchange Committee on Corporate Governance in Canada (the "TSE Report"). The principal corporate governance topics covered in the TSE Report are addressed below.

In this Statement, the term "unrelated director" has the meaning given to it in the TSE Report — a director who is independent of management and free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the Company, other than interests arising from shareholding.

Mandate of The Board

The mandate of the Board of Directors is to supervise the management of the business and affairs of the Company and to act with a view to the best interests of the Company. The frequency of meetings as well as the nature of agenda items changes depending upon the state of the Company's affairs, on-going developments with respect to the NWT project, active and proposed exploration projects, and in light of opportunities or risks which the Company faces. The Board met six times in 1998 and also held a number of informal communications and meetings during the year.

Board Composition

The Board of Directors is composed of seven members. Five directors are "unrelated directors" and two are "related directors", within the meaning of the TSE Report. Accordingly, the Board of Directors is constituted with a majority of individuals who qualify as "unrelated directors" within the meaning of the TSE Report.

Mr. Charles E. Fipke is Chair of the Board of Directors.

Mr. James E. Eccott is President and Chief Executive Officer of the Company and serves as a director.

Board Committees

The Board of Directors has four committees: the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Environmental and Safety Committee. The mandates of each committee are set by the Board of Directors and are reviewed periodically. Set out below is a description of their mandates and activities.

Audit Committee

The Audit Committee is responsible for reviewing the Company's financial reporting procedures, internal controls and the performance of the Company's external auditors. The Committee is also responsible for reviewing quarterly financial statements and the annual financial statements prior to their approval by the full Board of Directors. In April 1996, the Audit Committee was reconstituted and is now composed entirely of unrelated directors. The Audit Committee met four times in 1998. The Members are Messrs. Atkinson, Christofferson and Poling.

Compensation Committee

The Compensation Committee makes recommendations to the board on, among other things, the compensation of senior executives and the option plan for directors and officers. The Committee also reviews training programs and succession plans. It met twice in 1998. The Committee is composed entirely of unrelated directors. Its members are Messrs. Atkinson, Christofferson and Poling.

Corporate Governance Committee

The Corporate Governance Committee of the Board is responsible for making recommendations to the full Board with respect to developments in the area of corporate governance and the practices of the Board. The Committee is also responsible for reporting to the Board with respect to appropriate candidates for nomination to the Board, and for evaluating the performance of the Board. The Committee was appointed in April 1996. No formal meetings were held in 1998. It is composed of two unrelated directors and one related director. Its members are Messrs. Atkinson, Eccott and Mackenzie.

Environmental and Safety Committee

The Environmental and Safety Committee of the Board is responsible for reviewing environmental and safety issues related to any on-going exploration and development work in which the Company is involved. It was appointed in April 1996. No formal meetings were held in 1998. It is composed of two unrelated directors and one related director. Its members are Messrs. Fipke, Mackenzie and Poling.

Decisions Requiring Board Approval

In addition to those matters which must by law be approved by the Board, management is also required to seek Board approval for any disposition or expenditure in excess of $100,000.00. Management is also required to consult with the Board before entering into any venture which is outside of the Company's existing businesses.

Board Performance

The Corporate Governance Committee will monitor and report to the Board concerning the effectiveness of the Board's operations.

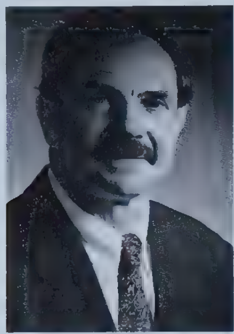
Shareholder Feedback

The Company encourages investor inquiries and responds promptly to all information requests. The Company has hired an employee with investor relations expertise to assist in the on-going development of this function. The Corporate Governance Committee of the Board monitors the nature of the information requested by and provided to the board so that it is able to determine if the Board can be more effective in identifying problems and opportunities for the Company.

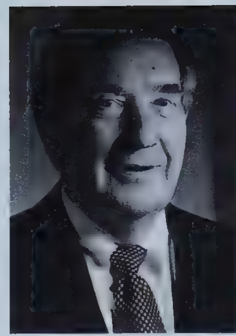
Expectations of Management

The Board reviews, from time to time, the corporate objectives of the CEO and the projects and priorities of the Company. The Board expects management to have in place an effective system of internal financial controls and other systems to permit compliance with the Company's financial reporting and environmental stewardship responsibilities.

Board of Directors

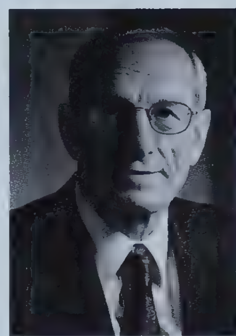


Charles E. Fipke
Chairman
Charles Fipke is a Bachelor of Science (Honours Geology) graduate of the University of British Columbia. Between 1970 and 1977, Mr. Fipke worked as a geologist involved to a large extent in heavy mineral exploration and research for Kennecott Copper in New Guinea, Samedan Oil in Australia, Johannesburg Consolidated Investments in southern Africa and Cominco Ltd. in Brazil and British Columbia. Mr. Fipke was a key player in the discovery of favourable kimberlite indicator minerals north of Lac de Gras, now the site of the Ekati Diamond Mine.

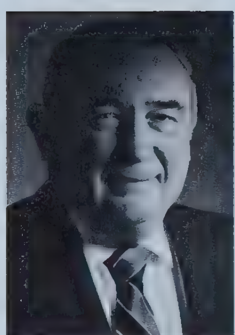


James E. Eccott
President and Chief Executive Officer
Born in Montreal, Quebec, James Eccott obtained his Bachelor of Commerce degree from the University of British Columbia in 1955. Mr. Eccott began his career as a sales representative and area manager for Crown Zellerbach Canada Ltd., in Vancouver, B.C. In 1971, he established Eccott Building Supplies Ltd., operating three building supply yards in the Okanagan Valley, and served as President and General Manager of the company until its sale in 1977. Between 1977 and 1991, Mr. Eccott ran an independent lumber brokerage in Kelowna, B.C. He joined the Board of Directors of Dia Met Minerals Ltd. in 1986. In 1992, he accepted the position of President and Chief Executive Officer of Dia Met. Mr. Eccott is also on the Board of Directors of Canadian Airlines Corporation, Prism Resources Limited and Tekerra Gas Inc.

Peter Y. Atkinson
Director
Peter Atkinson is Vice-President and General Counsel and a Director of Hollinger Inc. He is Vice-President of Hollinger International Inc. and a Director of Southam Inc. and Argus Corporation Ltd.

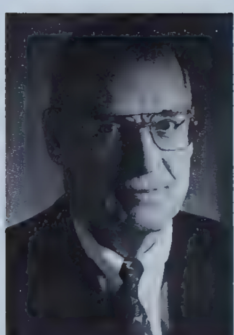


Keith A. Christofferseon
Director
Keith Christofferson practised law in British Columbia from 1968 to December 1997, specializing in mining and securities law. He acted as corporate counsel for Dia Met Minerals Ltd. from its inception in 1983 until he retired from his law practice in 1997.



Robert N. Hickman
Director
Robert Hickman is a retired Executive Vice-President of BHP Minerals where he had overall responsibility for new business development, acquisitions, exploration and strategic planning for the Minerals Group and worldwide responsibility for diamond activities. Mr. Hickman was the first President of BHP Diamonds Inc., directing the critical phases of BHP's joint venture operations in the NWT in partnership with Dia Met Minerals Ltd., Charles Fipke and Stewart Blusson and resulting in the development of the Ekati Mine. Following graduation from Montana Tech with a B.Sc. in Geological Engineering, he began a 37 year career as a mining engineer in copper and uranium. He was a key manager in the development and subsequently management of the Island Copper Mine in B.C. and was the first President of Minera Escondida responsible for the development, construction and initial operations of the Escondida Mine in Chile, currently the world's largest copper producer.

David W.G. Mackenzie
Director
David Mackenzie received a Bachelor of Fine Arts from the University of British Columbia. He has enjoyed an extensive aviation career as a fixed and rotary wing commercial pilot including air operations during the exploration and staking of the Ekati mine. He has won awards in the television and film business. Mr. Mackenzie was President of Dia Met Minerals Ltd. from 1985 to 1988.



Dr. George W. Poling
Director
Dr. George Poling is Professor emeritus and former Head of the Department of Mining and Mineral Process Engineering at the University of British Columbia, where he taught from 1968 until he retired in 1997. He was also Research Coordinator for the B.C. Mining Association. Dr. Poling holds a Bachelor of Science in Mining and Metallurgical Engineering and a Ph.D. in Mineral Process Engineering, both from the University of Alberta. He is one of Canada's leading experts in the mineral processing and environmental management of mining operations. Dr. Poling is a Senior Vice-President of Rescan Environmental Services Ltd.

Shareholder Information

SHARES TRADED ON TWO INTERNATIONAL STOCK EXCHANGES

Toronto Stock Exchange
American Stock Exchange

TICKER SYMBOLS

DMM.A
DMM.B

INDEX LISTINGS

TSE 300 Index
TSE Gold & Precious Minerals Index

COMMON SHARES

Outstanding at January 31, 1999	Class A - 8,394,374	Class B - 21,973,496
Fully diluted	Class A - 10,654,874	Class B - 22,473,496

VOLUME OF SHARES TRADED

1998	Class A	Class B
TSE	2,197,163	4,002,024
AMEX	58,800	100,400

1997	Class A	Class B
TSE	2,307,209	6,105,778
AMEX	41,000	87,800

CLOSING PRICE OF SHARES

(January 30, 1999)	Class A	Class B
TSE	$15.25 Cdn	$17.00 Cdn
AMEX	$10¼ US	$11⅜ US

SHARE TRADING INFORMATION
TORONTO STOCK EXCHANGE ($ CDN)

Quarter	Share Volume	High	Low	Share Volume	High	Low
1998	Class A			Class B		
First	424,727	25.40	22.55	749,098	30.95	26.00
Second	554,853	24.95	19.50	1,477,424	27.50	21.75
Third	248,792	21.80	16.00	674,021	23.25	15.15
Fourth	968,791	21.85	16.25	1,101,481	23.00	19.50
1997	Class A			Class B		
First	370,235	23.00	17.00	2,294,626	25.40	18.50
Second	850,753	25.00	20.00	1,557,886	26.25	20.00
Third	740,606	28.40	22.45	1,193,191	31.85	24.00
Fourth	345,615	29.25	20.50	1,060,075	32.15	23.90

AMERICAN STOCK EXCHANGE ($ US)

Quarter	Share Volume	High	Low	Share Volume	High	Low
1998	Class A			Class B		
First	15,400	$ 17⅝	$ 15¾	17,400	$ 21⅜	$ 18¹¹⁄₁₆
Second	13,800	17	14¼	13,500	19¼	14⅞
Third	14,100	14¾	10⅜	25,100	15½	9⅞
Fourth	15,500	14	10⅞	44,400	15⅛	13
1997	Class A			Class B		
First	15,500	16¾	13	25,600	18⅛	14⅛
Second	6,300	17⅛	14¼	20,000	19	14½
Third	9,300	19¼	16¹³⁄₁₆	27,800	22⅞	18⅜
Fourth	9,900	20	15½	14,400	23⅜	16⅞

On February 22, 1994 the common shares of the Company were split on a 2 for 1 basis. On July 14, 1994 the capital of the Company was re-organized and each common share outstanding was exchanged for 1 Class B share and 0.25 class A shares.

RECENT RESEARCH REPORTS

Firm	Analyst	Phone	Date of Report
Goepel McDermid Securities	Rob Klassen	(604) 659-8285	March 4, 1999
Merrill Lynch & Co.	Michael Curran	(416) 369-2225	March 11, 1999
Deutsche Bank Securities	Don MacLean	(416) 682-8195	April 19, 1999
RBC Dominion Securities	John Barker	(44) (171) 653-4600	April 21, 1999
Canaccord Capital	David James	(204) 988-9602	April 30, 1999
Nesbitt Burns Inc.	Steven Butler	(416) 359-6199	April 30, 1999
Yorkton Securities Inc.	Greg Barnes	(416) 864-3665	April 30, 1999
Newcrest Capital Inc.	David Davidson	(416) 863-2332	April 30, 1999
First Marathon Securities Limited	John Lydall	(416) 869-6663	May 3, 1999

Dia Met's principal goal is to be among the top performers in total shareholder return in the world diamond exploration and mining industry.

Corporate Directory

BOARD OF DIRECTORS

Charles E. Fipke [4]
Chairman of the Board and Director

Peter Y. Atkinson [1] [2] [3]
Director

Keith A. Christofferson [1] [2]
Director

James E. Eccott [3]
President, Chief Executive Officer and Director

Robert N. Hickman
Director

David W. G. Mackenzie [3] [4]
Director

Dr. George W. Poling [1] [2] [4]
Director

(1) Member of the Audit Committee
(2) Member of the Compensation Committee
(3) Member of the Corporate Governance Committee
(4) Member of the Environmental and Safety Committee

OFFICERS

James E. Eccott [3]
President, Chief Executive Officer and Director

Raymond M. Ashley
Vice President of Exploration

Gerald D. Prosalendis
Vice President of Corporate Development

Shannon M. Ross
Corporate Secretary

CORPORATE OFFICE

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Website: www.diamet.com

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LEGAL COUNSEL

Edwards, Kenny & Bray
Barristers and Solicitors
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Vancouver, B.C., Canada
V6E 4H3

AUDITORS

KPMG LLP
Suite 300 - 1674 Bertram Street
Kelowna, B.C., Canada
V1Y 9G4

BANKERS

Royal Bank of Canada
510 Bernard Avenue
Kelowna, B.C., Canada
V1Y 7N9

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company
510 Burrard Street
Vancouver, B.C., Canada
V6C 3B9

8th Floor - 151 Front Street
Toronto, ON, Canada
M5J 2N1

STOCK EXCHANGE LISTINGS

Toronto Stock Exchange
Symbol DMM.A and DMM.B

American Stock Exchange
Symbol DMM.A and DMM.B

Cautionary Note

Some of the statements contained in this annual report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expects a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements by reason of factors such as the overall productivity of the Ekati Diamond Mine and the marketability of diamonds produced by the mine. Changes in general economic conditions and conditions in the financial markets, changes in demand and prices for diamonds and competition from other diamond producers could also have an impact on actual results. Results could also be affected by legislative, regulatory and political developments relating to environmental, aboriginal, tax, competition and other matters both in Canada and other areas in which the Company operates, and by litigation and labour relations issues affecting the Company.

DIA MET

MINERALS LTD.

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